

WHEN CONGRESS GIVES TWO HATS, WHICH DO YOU WEAR? CHOOSING BETWEEN DOMESTIC INDUSTRY PROTECTION AND IP ENFORCEMENT IN § 337 INVESTIGATIONS

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In the United States, patent owners who seek to exclude infringing imports can file suit in a federal district court to enjoin entry of those articles under Title 35 of the U.S. Code.¹ Alternatively, they may file a complaint with the U.S. International Trade Commission (“ITC” or “Commission”) in Washington, D.C. to initiate an investigation under § 337 of the Tariff Act of 1930.² This investigation may lead to an exclusion order which prevents infringing articles from entering the United States:

The Commission shall investigate any alleged violation of [§ 337] on complaint under oath or upon its initiative. . . . If the Commission determines . . . that there is a violation of this section, it shall direct that the articles concerned . . . be excluded from entry into the United States . . . unless, after considering the effect of such exclusion upon the public health and welfare, competitive conditions in the United States economy, the production of like or directly competitive articles in the United States, and United States consumers, it finds that such articles should not be excluded from entry.³

The ITC works under a different set of statutes and mandates than the federal courts, the most important among these being the mandate to protect domestic industry from “unfair trade practices” under the trade acts enacted and amended throughout the twentieth century.⁴ This parallel track for patent litigation offers ITC litigants various benefits, among them a speedy

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1. 35 U.S.C. § 283 (2006) (authorizing the federal courts to grant injunctions to prevent the violation of patent rights).

2. Smoot-Hawley Tariff Act, ch. 497, § 337, 46 Stat. 590, 703–04 (current version at 19 U.S.C. § 1337 (2006)).

3. § 1337(b)(1), (d)(1).

4. See discussion *infra* Section II.B.

hearing schedule and case resolution typically within eighteen months.⁵ However, the Commission's recent interpretations of § 337(a)(3)(C) likely expand the availability of ITC proceedings to complaining entities that lack the traditional characteristics of domestic industry that the ITC and its predecessors were designed to protect—and may still have to protect—under the public interest language built into the statute.⁶ Where modern respondents rather than complainants embody those traditional characteristics, issuing an exclusion order may harm the public welfare without an offsetting benefit to public knowledge and consumers generally.⁷ The ITC therefore faces a difficult choice which may result in unpredictable outcomes: protect intellectual property rights or protect the domestic industry?

Part I of this Note gives an overview of how the ITC obtained authority over intellectual property cases and explains why it is a significant modern forum for patent litigation. Part II traces the developments in ITC jurisprudence and federal legislation which have eased the traditional domestic industry burden on complainants. Part III explains that the eased burden causes a new problem because the ITC's blunt exclusion order remedy is available for non-practicing IP rights owners to assert against domestic producers, with a greater ensuing risk of harm to the public interest. Part IV synthesizes the domestic industry and exclusion order discussions to suggest fixes for the tension that the ITC faces in choosing whether to protect IP rights or domestic industry.

I. OVERVIEW OF THE ITC AND EVOLUTION OF § 337

The ITC is an agency with trade expertise that adjudicates patents as part of its intellectual property-based import investigations under § 337.⁸ The

5. U.S. INT'L TRADE COMM'N, PERFORMANCE AND ACCOUNTABILITY REPORT: FISCAL YEAR 2009, at 38 (2009), http://www.usitc.gov/press_room/documents/FinalPAR2009.pdf [hereinafter ITC, P&A REPORT]; see discussion *infra* Section I.D.

6. See, e.g., § 1337(d)(1) (directing the Commission to consider “the public health and welfare, competitive conditions in the United States economy, the production of like or directly competitive articles in the United States, and United States consumers”); see also discussion *infra* Section III.B.

7. See discussion *infra* Section II.B.1; see also FED. TRADE COMM'N, THE EVOLVING IP MARKETPLACE: ALIGNING PATENT NOTICE AND REMEDIES WITH COMPETITION 52 (Mar. 2011), available at <http://www.ftc.gov/os/2011/03/110307patentreport.pdf> (“When a company commercializes technology that it invented independently and later faces a patent assertion, the resulting ex post license provides no direct benefit to consumers, however.”).

8. “Section 337” is commonly used to refer to the statute, which is codified at § 1337 of Title 19 of the U.S. Code.

Commission performs various functions under authority conferred by various trade and tariff legislation passed throughout the twentieth century. That legislation provided the agency with the authority to issue remedies against unfair methods or acts, such as patent infringement, in the importation of goods. For various reasons explored below, complainants have been increasingly turning to the ITC to enforce their domestic IP rights.

A. ITC STRATEGIC OPERATIONS, § 337 PROCEEDINGS, AND RELATION TO THE PATENT LAWS

The ITC is a U.S. government agency that traces its existence to the trade statutes of the late nineteenth century which Congress enacted to protect domestic industry from unfair trade practices abroad.⁹ It consists of a panel of six Commissioners appointed by the President of the United States who, in § 337 investigations, determine whether complainants are entitled to exclusionary relief under the trade laws.¹⁰ The Commission has evolved into an entity that handles five strategic operations within the federal government.¹¹ One of these is IP-based import investigations under § 337,¹² the main concern of this Note and of patent litigators. Beyond its § 337 authority, the ITC performs four other functions. The Commission conducts import injury investigations¹³ under Title VII of the Tariff Act of 1930¹⁴ that are not based on IP rights. Title VII investigations may conclude with issuance of an order authorizing antidumping duties or countervailing duties on products that either are sold at less than fair value in the United States or receive subsidies in violation of international trade pacts.¹⁵ Second, the ITC analyzes trade and competitiveness, probable economic effects, and emerging trade issues and documents the results in published reports primarily for the benefit of the legislative and executive branches of government.¹⁶ Third, the agency provides tariff and trade information services which include

9. For more detailed discussion of the trade statute enactment history, see discussion *infra* notes 39–43 and accompanying text.

10. 19 U.S.C. § 1330(a) (2006).

11. ITC, P&A REPORT, *supra* note 5, at 8.

12. *Id.* at 37.

13. *Id.* at 25.

14. The Trade Agreements Act of 1979 added Title VII to the Tariff Act of 1930. *See* Pub. L. No. 96-39, 93 Stat. 144, 150–201 (1979) (codified as amended in scattered sections of 19 U.S.C. but mainly at §§ 1671–1677 (2006)).

15. § 101, 93 Stat. at 151 (countervailing duties); *id.* at 162 (antidumping duties).

16. ITC, P&A REPORT, *supra* note 5, at 50.

producing and maintaining the Harmonized Tariff Schedule.¹⁷ Finally, the Commission supports trade policy by “supplying technical expertise and providing objective information on international trade issues.”¹⁸ This overview of the ITC’s strategic operations demonstrates the agency’s deep expertise in dealing with trade issues, an expertise that it applies to § 337 investigations.

Section 337 gives IP rights owners a forum other than the federal courts to assert their exclusive right to prevent infringing imports from entering the United States. These IP-based actions are formally called investigations. A relatively high percentage of § 337 investigations requires a full trial to resolve all necessary issues including validity, infringement, defenses, and the public interest.¹⁹ But the six Commissioners do not sit alone in conducting the investigations. Rather, a proceeding often begins somewhat informally when a party submits a draft complaint to the Office of Unfair Import Investigations (“OUII”) for procedural and substantive compliance.²⁰ The complaint must comply with the heightened pleading requirements set forth at 19 C.F.R. § 210.12, including pointing out or describing specific instances of unlawful importations, related litigation, the existence of a domestic industry, and identification of the infringed patent.²¹ The party then formally files the complaint and the Commissioners vote whether to initiate an investigation based on the allegations in the complaint.²² The Commission

17. *Id.* at 61. The Harmonized Tariff Schedule is a “hierarchical structure for describing all goods in trade for duty, quota, and statistical purposes.” U.S. Int’l Trade Comm’n, *About Harmonized Tariff Schedule*, http://usitc.gov/tariff_affairs/about_hts.htm (last visited Feb. 26, 2011).

18. ITC, P&A REPORT, *supra* note 5, at 70.

19. ITC cases settle only about forty-five or fifty percent of the time, with many of the remaining cases going to trial. Presentation, Lynn Levine, Office of Unfair Import Investigations, U.S. Int’l Trade Comm’n, *The ITC Comes to Silicon Valley: The ITC’s Growing Role in Patent Adjudication*, audio recording at 3:40 (May 18, 2010), <http://www.law.berkeley.edu/8597.htm> (lecture slides and audio recording available at conference site).

20. *Id.* at slide 13; Peter S. Menell et al., *Section 337 Patent Investigation Management Guide*, ch. 1 introduction & § 2.1.1 (Berkeley Center for Law & Technology, Paper No. 1603330, 2010), available at <http://ssrn.com/abstract=1603330>.

21. 19 C.F.R. § 210.12 (2010); see also Menell et al., *supra* note 20, § 2.1.1.

22. The voting sheets along with § 337 investigation filings and transcripts are available on the ITC’s online document retrieval system, EDIS, found at <http://edis.usitc.gov>. For the voting sheet in the *Coaxial Cable Connectors* litigation, see Action Jacket Approval Record, Certain Coaxial Cable Connectors and Components Thereof and Products Containing Same (*Coaxial Cable Connectors*), Inv. No. 337-TA-650 (ITC May 19, 2008), EDIS Doc. No. 302522. See also Menell et al., *supra* note 20, § 2.1.4.1 (discussing Action Jacket voting procedure).

publishes a Federal Register notice communicating the result of the vote²³ and, if voting in the affirmative, specifying an administrative law judge (“ALJ”) who will control the fact-finding trial phase of the investigation.²⁴ The notice includes an invitation for interested party comments on the public interest (“Comments”).²⁵ The ALJ conducts proceedings similar to those of a district court but governed by the Administrative Procedure Act.²⁶ Besides the complainant and named respondent, OUII continues to actively participate in the trial-phase proceedings as a third party litigant representing the public interest.²⁷ The proceedings offer only limited opportunity for interlocutory review.²⁸ The ALJ issues an initial determination (“ID”), following which the parties may request review by the Commissioners.²⁹ Assisted by a separate organ of the ITC called the Office of the General Counsel, the Commissioners may choose to do nothing and allow the ID to become final.³⁰ Alternatively, they may review the ID and affirm, modify, set aside, or remand it in whole or in part.³¹ The Court of Appeals for the Federal Circuit may then review the ITC’s final determinations.³²

23. 19 C.F.R. § 210.3 (“An investigation is instituted upon publication of a notice in the FEDERAL REGISTER.”); *see* 19 U.S.C. § 1337(b)(1) (2006) (“the Commission shall publish notice thereof in the Federal Register”). For the Federal Register notice in the *Coaxial Cable Connectors* investigation, see Notice of Investigation, 73 Fed. Reg. 31145 (May 30, 2008).

24. 19 C.F.R. § 210.3 (“[A]n administrative law judge also may preside over stages of a related proceeding under this part.”); *see also* Menell et al., *supra* note 20, ch. 1 introduction & § 2.1.4.4.

25. 19 C.F.R. § 210.50(a)(4).

26. This and other key differences between federal court and ITC adjudications are discussed in more detail *infra* Section I.D.

27. U.S. INT’L TRADE COMM’N, YEAR IN REVIEW: FISCAL YEAR 2009, at 13–14 (2009), http://www.usitc.gov/publications/year_in_review/pub4167.pdf [hereinafter ITC, YEAR IN REVIEW]; Menell et al., *supra* note 20, § 1.3.2.4.

28. 19 C.F.R. § 210.24 (“Rulings by the administrative law judge on motions may not be appealed to the Commission prior to the administrative law judge’s issuance of an initial determination, except in the following [enumerated circumstances].”); *see also* Certain Hybrid Electric Vehicles and Components Thereof (*Hybrid Electric Vehicles*), Inv. No. 337-TA-688, ALJ Order No. 14 at 5 (ITC June 16, 2010), EDIS Doc. No. 427567 (finding that Toyota had not met “the heavy burden of meeting the criteria for interlocutory appeal”).

29. 19 C.F.R. § 210.43.

30. *Id.* § 210.42(h).

31. *Id.* § 210.45(c) (“On remand, the Commission may affirm, reverse, modify, set aside or remand for further proceedings, in whole or in part, the initial determination of the administrative law judge.”). *See generally* §§ 210.42–210.45 (governing the conduct of the Commission’s review of an initial determination).

32. 19 U.S.C. § 1337(c) (2006); 28 U.S.C. § 1295(a)(6) (2006). The Federal Circuit “reviews the Commission’s legal determinations de novo and the Commission’s factual findings for substantial evidence.” *Spansion, Inc. v. Int’l Trade Comm’n*, 629 F.3d 1331, 1343 (Fed. Cir. 2010).

Substantively, questions exist regarding whether and when the Patent Act binds the ITC, with Federal Circuit jurisprudence pointing in both directions.³³ Although issue determinations in the federal courts (e.g., of validity and infringement) may bind the ITC under issue preclusion,³⁴ the preclusive effect does not run in the reverse direction.³⁵ On the other hand, federal court determinations that an injunctive remedy is inappropriate under *eBay v. MercExchange*³⁶ do not bind the ITC,³⁷ which determines on its own whether to issue quasi-injunctive relief in the form of an exclusion order.³⁸ Therefore, there is a risk of inconsistent judgments between these parallel patent litigation tracks.

B. THE EVOLUTION OF § 337 AND MODERN INTELLECTUAL PROPERTY-BASED ITC INVESTIGATIONS

In the early days of the Tariff Commission, the ITC's predecessor agency, patent enforcement was merely a sideshow to its main mission of protecting American industry and labor³⁹ from "unfair trade practices."⁴⁰

33. Compare *Kinik Co. v. Int'l Trade Comm'n*, 362 F.3d 1359, 1363 (Fed. Cir. 2004) (affirming the ITC's finding that § 271(g) defenses pertaining to process patents do not apply under § 337), with *Amgen, Inc. v. Int'l Trade Comm'n*, 565 F.3d 846, 848 (Fed. Cir. 2009) (affirming that § 271(e) safe harbor provision applies to § 337 proceedings). For discussion of the ways in which the ITC does and does not match federal court practice, see Sapna Kumar, *The Other Patent Agency: Congressional Regulation of the ITC*, 61 FLA. L. REV. 529, 552 (2009).

34. In the 2010 *Hybrid Electric Vehicles* investigation, the question of whether *KSR Int'l Co. v. Teleflex Inc.*, 550 U.S. 398 (2007), would preclude relitigation of the obviousness issue came before the Commission but the Commission found that Toyota had not met its burden of sufficiently proving a material intervening change in law to invoke the exception to issue preclusion. *Hybrid Electric Vehicles*, Inv. No. 337-TA-688, Commission Op. at 4 n.5 (ITC June 22, 2010), EDIS Doc. No. 427966.

35. Kumar, *supra* note 33, at 559.

36. *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388 (2006).

37. *Spansion*, 629 F.3d at 1359 (holding that "*eBay* does not apply to Commission remedy determinations under Section 337"); see also *Certain Baseband Processor Chips and Chipsets, Transmitter and Receiver (Radio) Chips, Power Control Chips, and Products Containing Same, Including Cellular Telephone Handsets (Baseband Processor Chips)*, Inv. No. 337-TA-543, Commission Op. at 102 n.230 (ITC June 12, 2007), EDIS Doc. No. 276412, *rev'd in part sub nom. Kyocera Wireless Corp. v. U.S. Int'l Trade Comm'n*, 545 F.3d 1340 (Fed. Cir. 2008) (expressing Commission's opinion that *eBay* does not apply to ITC remedies).

38. 19 U.S.C. § 1337(d) (2006); see also discussion *infra* Section III.A.1.

39. The purpose stated in the acts passed to address tariff and trades concerns, from which the modern day ITC arises, reflects this mission. See, e.g., Act of 1909, ch. 6, 36 Stat. 11 ("An Act To . . . encourage the industries of the United States . . ."); Tariff Act of 1930, ch. 497, 46 Stat. 590 ("An Act . . . to encourage the industries of the United States [and] protect American labor . . ."); Trade Act of 1974, Pub. L. No. 93-618, § 2(4), 88 Stat. 1978, 1981 (1975) ("The Purposes of this Act are . . . to provide adequate procedures to safeguard

Congress created the Tariff Commission under the Revenue Act of 1916⁴¹ but did not prohibit “unfair methods and acts” until the enactment of § 316 of the Tariff Act of 1922.⁴² Eight years later, Congress enacted the Smoot-Hawley Tariff Act of 1930, which substantially kept the language of § 316 in a new § 337.⁴³

From then on, the scope and character of the Commission’s § 337 adjudication developed along two axes: first, the judicial and eventually statutory recognition that IP infringement constituted an “unfair method or act” under § 337; and second, whether and how closely the ITC followed

American industry and labor against unfair or injurious import competition, and to assist industries, firms, workers, and communities to adjust to changes in international trade flows . . .”).

40. Title III of the Trade Act of 1974 is named “Relief from Unfair Trade Practices” and updates the antidumping provisions of the Antidumping Act of 1921 as well as the countervailing duty provisions and § 337 language of the Tariff Act of 1930. 88 Stat. at 2041, 2043, 2049, 2053.

41. Tariff- and trade-centered agencies existed prior to this time, but the Tariff Commission was the first entity tasked with protection against “unfair methods and acts” such as patent infringement. *See* Act of 1882, ch. 145, 22 Stat. 64 (establishing a Tariff Commission); Act of 1909, 36 Stat. at 98 (establishing a board of general appraisers to consider tariffs); Act of 1912, ch. 350, 37 Stat. 360, 407 (consolidating existing agencies into the Bureau of Foreign and Domestic Commerce); Revenue Act of 1916, ch. 463, § 700, 39 Stat. 795, 795 (establishing the United States Tariff Commission); Tariff Act of 1922, ch. 356, § 316, 42 Stat. 858, 943 (declaring unlawful “unfair methods of competition and unfair acts in the importation of articles”); Tariff Act of 1930, 88 Stat. at 703 (replacing § 316 of the 1922 Act with § 337). The full text of § 316(a) from the Tariff Act of 1922 is set forth here:

SEC. 316. (a) That unfair methods of competition and unfair acts in the importation of articles into the United States, or in their sale by the owner, importer, consignee, or agent of either, the effect or tendency of which is to destroy or substantially injure an industry, efficiently and economically operated, in the United States, or to prevent the establishment of such an industry, or to restrain or monopolize trade and commerce in the United States, are hereby declared unlawful, and when found by the President to exist shall be dealt with, in addition to any other provisions of law, as hereinafter provided.

§ 316, 42 Stat. at 943.

For more information and discussion on the history of the ITC and § 337, see U.S. Nat’l Archives & Records Admin., *Records of the United States International Trade Commission [USITC]*, <http://www.archives.gov/research/guide-fed-records/groups/081.html> (last visited Feb. 26, 2011); Menell et al., *supra* note 20, § 1.2.1; Kumar, *supra* note 33, at 545–51; Richard G. Allison, Note, *Section 337 Proceedings Before the International Trade Commission: Antiquated Legislative Compromise or Model Forum for Patent Dispute Resolution?*, 5 N.Y.U. J.L. & BUS. 873, 874–78 (2009).

42. § 316, 42 Stat. at 943.

43. Tariff Act of 1930, 46 Stat. 590. The purpose of the act was “[t]o provide revenue, to regulate commerce with foreign countries, to encourage the industries of the United States, to protect American labor, and for other purposes.” *Id.*

federal court patent adjudication practice in § 337 cases. The Commission and federal courts affirmed that IP rights infringement constituted an “unfair method or act” within the purview of § 316 and subsequently § 337 well before Congress enacted the 1974 amendments explicitly recognizing this. The original complainant in *Frischer & Co. v. Bakelite Corp.*⁴⁴ faced injury from IP rights infringement and had successfully invoked § 316 in 1926⁴⁵ to exclude patent- and trademark-infringing products before the Tariff Commission.⁴⁶ The Commission accordingly recommended that the President of the United States exclude the products from entry.⁴⁷ The Court of Customs Appeals affirmed that importation of infringing goods constituted a § 316 violation.⁴⁸ Under the Tariff Act of 1922, after such a finding by the Tariff Commission, the President could impose a duty instead of issuing an exclusion order totaling 10% to 50% of the value of the imported article.⁴⁹ As to the exclusion order remedy, the Second Circuit recognized that it was a remedy for “extreme cases of unfair acts” rather than cases where the additional duty was sufficient.⁵⁰ But in 1974, Congress amended the 1930 Act to give the ITC final decision-making authority rather than the power merely to make a recommendation to the President.⁵¹ Congress did not, however, vest the newly-created ITC with the same power as the President to impose a duty; instead, the ITC could only issue different

44. *Frischer & Co. v. Bakelite Corp. (Frischer I)*, 39 F.2d 247 (C.C.P.A. 1930).

45. *See Frischer & Co. v. Elting (Frischer II)*, 60 F.2d 711, 712 (2d Cir. 1932).

46. *Id.*

47. Under the Tariff Act of 1922, the Tariff Commission could recommend that the President either apply the potent remedy of exclusion, or the less powerful remedy of applying a duty on top of the imported products, from ten percent up to fifty percent of the value of the imported articles. § 316(e), 42 Stat. 944. The courts evaluated this recommendation and the President’s action in light of what was necessary to achieve the ends of the Tariff Act, namely, to protect domestic industry. *See Frischer II*, 60 F.2d at 714. Such discretion in the choice of remedy ended with the passage of the Tariff Act of 1930, which removed the ten-to-fifty percent duty remedy and allowed the Tariff Commission to recommend that the President issue only an exclusion order. *Compare* Tariff Act of 1922, § 316(e), 42 Stat. at 944, *with* Tariff Act of 1930, § 337(e), 46 Stat. at 704.

48. *Frischer II*, 60 F.2d at 712.

49. § 316(e), 42 Stat. at 944; *see also Frischer II*, 60 F.2d at 712. The Tariff Commission “had only advisory responsibility and often took 2 or more years to make a recommendation to the President.” U.S. GOV’T ACCOUNTING OFFICE, GAO-NSAID-86-150, INTERNATIONAL TRADE: STRENGTHENING TRADE LAW PROTECTION OF INTELLECTUAL PROPERTY RIGHTS 14 (1986), <http://archive.gao.gov/d4t4/130844.pdf> [hereinafter GAO REPORT].

50. *Frischer II*, 60 F.2d at 712.

51. Colleen V. Chien, *Patently Protectionist? An Empirical Analysis of Patent Cases at the International Trade Commission*, 50 WM. & MARY L. REV. 63, 73 (2008).

types of exclusion orders.⁵² Although it is unclear why Congress transferred to the ITC the power to issue an exclusion order but not impose a duty, Congress enacted this change with full recognition of the fact that § 337 was being “most often applied to articles entering the United States in violation of claims under U.S. patents.”⁵³ Of course, the modern ITC’s jurisdiction under § 337 extends beyond patent disputes and continues to cover other types of intellectual property.⁵⁴

Once the courts and Congress recognized IP rights infringement to constitute an “unfair method or act,” the power of the Tariff Commission and the ITC to rule on necessary IP issues eventually encompassed determinations on validity, infringement, and available defenses. In the early days of § 316 and § 337 patent adjudication, the Tariff Commission had no jurisdiction to review the validity of patents, since patents were presumed valid unless a “court of competent jurisdiction” exercised its power to find otherwise.⁵⁵ This was an early disharmony between the power and function of the federal courts under Title 35 and the authority vested in the Tariff Commission by the trade acts. In 1969, however, the Supreme Court ruled that federal patent policy overrides state contract rules for issues of validity, holding that a licensee could challenge the validity of a licensed patent and thereby refuse to pay royalties upon such determination.⁵⁶ Congress seized upon this holding when it reported on the Trade Act of 1974, stating that the “ultimate issue of the fairness of competition . . . necessitate[s] that the Commission review the validity and enforceability of patents.”⁵⁷ The 1974 Trade Act required the ITC “to accept ‘all equitable defenses,’ which could

52. Trade Act of 1974, Pub. L. No. 93-618, § 341, 88 Stat. 1978, 2054 (1975) (amending § 337(d)).

53. S. REP. NO. 93-1298, at 34 (1974). Congress was aware that by 1974, most of the cases brought under § 337 were patent-related. *Id.*

54. For example, the case that prompted the 1988 rewrite of § 337 involved copyright infringement, not patent infringement. *See* Products with Gremlins Character Depictions (*Gremlins*), Inv. No. 337-TA-201, Commission Op., reprinted in USITC Pub. 1815 (Mar. 1986), EDIS Doc. No. 217587; *see also* Report of the Panel, *United States—Section 337 of the Tariff Act of 1930*, ¶ 5.3, L/6439 (Nov. 7, 1989), GATT B.I.S.D. (36th Supp.) at 345 (1989) (“Section 337 is not limited to patent disputes . . .”) [hereinafter Section 337 Panel Report].

55. S. REP. NO. 93-1298, at 196. Title 28 grants federal courts original and exclusive jurisdiction over civil actions “arising under any Act of Congress relating to patents.” 28 U.S.C. § 1338 (2006); *see also* GAO REPORT, *supra* note 49, at 14; Menell et al., *supra* note 20, § 11.5.5.

56. *Lear, Inc. v. Adkins*, 395 U.S. 653, 672–73 (1969).

57. S. REP. NO. 93-1298, at 196 (discussing *Lear v. Adkins* and stating that policy behind decision should also apply to ITC).

include patent misuse and invalidity,”⁵⁸ thus bringing ITC practice into better harmony with federal court adjudication under the Patent Act though never binding it fully to Title 35. Given these changes, a Government Accounting Office (“GAO”) report noted that the 1974 amendments gave the ITC such strong authority that one prominent attorney felt compelled to characterize the agency as “the best forum wherein to challenge widespread infringement of U.S. intellectual property rights.”⁵⁹

C. EXCLUSION ORDERS AND OTHER REMEDIES

The most important ITC remedy today is the exclusion order.⁶⁰ U.S. Customs and Border Protection enforces ITC exclusion orders at the border, a system meant to prevent infringing articles from entering the United States without further action by the complainant.⁶¹ Exclusion orders come in two varieties: limited and general.⁶² The default exclusion order is of limited scope (limited exclusion order, or “LEO”), and it applies only to those parties noticed as respondents to a particular complaint filed at the ITC.⁶³ The default scope of the order is limited because of public notice concerns regarding an exclusion order’s potential effect on unnamed parties.⁶⁴ Upon specific factual determinations relating to the types of products imported and scope of the potential harm, the ITC has the power to issue a general exclusion order (“GEO”).⁶⁵ The statute authorizes a GEO when “necessary to prevent circumvention of an exclusion order limited to products of named persons” or when “there is a pattern of violation of [§ 337] and it is difficult to identify the source of infringing products.”⁶⁶

58. GAO REPORT, *supra* note 49, at 14.

59. *Id.*

60. *See* Kumar, *supra* note 33, at 530.

61. *But see generally* Merritt R. Blakeslee, *Post-Litigation Enforcement of Remedial Orders Issued by the U.S. International Trade Commission in Section 337 Investigations*, 8 J. MARSHALL REV. INTEL. PROP. L. 248 (2009) (questioning whether exclusion order enforcement is, in fact, “automatic and self-implementing” and whether self-help is truly unnecessary).

62. 19 U.S.C. § 1337(d)(2) (2006).

63. *Id.*

64. *See* Menell et al., *supra* note 20, § 2.1.4.2.2 (citing *Certain Cast Steel Railway Wheels, Processes for Manufacturing or Relating to Same and Certain Products Containing Same*, Inv. No. 337-TA-655, Commission Op. at 5–6 (ITC Mar. 19, 2010), EDIS Doc. No. 420975 (rejecting complainant’s argument that it did not waive right to request general exclusion order by failing to request it at the outset of the investigation)).

65. § 1337(d)(2).

66. § 1337(d)(2)(A)–(B).

Congress added cease and desist orders to the ITC's remedy arsenal in 1974⁶⁷ before later adding consent orders⁶⁸ and the ability to enforce judgments through civil penalties in a federal district court.⁶⁹ The Commission may send cease and desist orders notifying recipients that they are prohibited from "engaging in the unfair methods or acts involved" unless the public interest dictates otherwise.⁷⁰ An exclusion order may follow a cease and desist order in the event it is revoked.⁷¹ A cease and desist order often issues when a respondent imports infringing software electronically, or when it has already built up a "commercially significant inventory" of infringing products that it might sell in the United States.⁷² The Commission also has the authority to issue a consent order when the parties in suit reach an agreement, such as a settlement agreement, without the Commission determining whether a § 337 violation occurred.⁷³ Finally, the ITC has the authority to bring civil actions to force violating parties to pay civil penalties in the federal district courts if a party violates one of its orders.⁷⁴

D. MODERN PATENT LITIGATION FORUM

Throughout the twentieth and into the twenty-first century, the number of patent investigations conducted at the ITC has grown considerably,⁷⁵ both as an absolute number and as a percentage of all U.S. patent litigations. The ITC currently "conducts more full patent adjudications on an annual basis than any district court in the nation."⁷⁶ The number of § 337 investigations

67. Trade Act of 1974, Pub. L. No. 93-618, § 341, 88 Stat. 1978, 2055 (1975) (creating § 337(f), giving the Commission the power to issue cease and desist orders).

68. Omnibus Trade and Competitiveness Act, Pub. L. No. 100-418, § 1342(a)(2), 102 Stat. 1107, 1213 (1988) (codified at 19 U.S.C. § 1337(c)).

69. See § 1337(f).

70. § 1337(f)(1).

71. *Id.*

72. Presentation, Mark Davis, Weil, Gotshal & Manges LLP, The ITC's Growing Role in Patent Adjudication: The View from the Bar, at slide 7 (May 18, 2010), <http://www.law.berkeley.edu/8597.htm> (lecture slides and audio recording available at conference site).

73. § 1337(c).

74. § 1337(f)(2).

75. Kumar, *supra* note 33, at 530. See Davis, *supra* note 72, audio recording at 20:10 (citing a "definite increase in the popularity of Section 337 and its importance as a tool in patent enforcement").

76. Peter S. Menell, *The International Trade Commission's Section 337 Authority*, 2010 PATENTLY-O PATENT L.J. 79, 79. Thirty-one § 337 investigations were instituted in calendar year 2009. U.S. Int'l Trade Comm'n, *Number of Section 337 Investigations Instituted by Calendar Year* (2010), http://www.usitc.gov/intellectual_property/documents/cy_337_institutions.pdf [hereinafter ITC, *Number of § 337 Investigations*]. Another USITC source

instituted from 2005 to 2009 averaged thirty-four per year,⁷⁷ and in 2009 the Commission rendered a final decision regarding the existence of a violation in sixteen investigations.⁷⁸ These sixteen full adjudications represent about one in seven patent trials taking place in the United States.⁷⁹ Explaining these increases requires a look at both the extrinsic and intrinsic factors that contribute to use of the ITC as a patent litigation forum.

1. *Extrinsic Factors*

Economic changes and federal court jurisprudence are two extrinsic factors that have led to increased ITC use. First, globalization of manufacturing and supply chains means that more patent owners have the ability to sustain a complaint before the ITC since a greater number of potentially infringing products or components are imported.⁸⁰ Second,

reports thirty-six IP-based investigations and ancillary proceedings in FY 2009. ITC, P&A REPORT, *supra* note 5, at 37. By comparison, the total number of U.S. district court patent litigations filed for the calendar year ending June 2009 was 2,744. PricewaterhouseCoopers, *2010 Patent Litigation Study: The Continued Evolution of Patent Damages Law*, at 6 (Sept. 2010), <http://www.pwc.com/us/en/forensic-services/publications/assets/2010-patent-litigation-study.pdf>.

77. ITC, *Number of § 337 Investigations*, *supra* note 76.

78. This is up from twelve full investigations completed in each of 2005, 2006, and 2007 and does not count, e.g., investigations which terminated upon settlement. ITC, P&A REPORT, *supra* note 5, at 40. Prior to 1977, the ITC instituted no more than nine investigations under § 337 in any calendar year. Those investigations increased steadily from 1977 to 1983, peaking at forty-three new investigations, before declining and hovering around thirteen until the new millennium, when the average number of new investigations per year has been just over 28. ITC, *Number of § 337 Investigations*, *supra* note 76. As of May 14, 2010, there were seventy-six § 337 matters active at the ITC, showing a steady increase from only twenty-five in 2000. Levine, *supra* note 19, at slide 3. This number includes “ancillary” matters under § 337, which comprise not only patent litigations but also, e.g., enforcement, advisory proceedings, and modifications. ITC, P&A REPORT, *supra* note 5, at 38; Levine, *supra* note 19, audio recording at 2:00.

The ITC’s record of completing investigations is impressive. Despite a higher number of investigations in 2009 (fifty) and with only three ALJs serving during that year, the ITC managed to complete sixteen investigations in 2009, up from twelve completed each year from 2005–2008 and fifteen completed in 2009. ITC, P&A REPORT, *supra* note 5, at 40.

79. The ninety-four U.S. district courts conduct about 100 patent trials per year; in 2009, sixteen to nineteen patent investigations were adjudicated at the ITC (sixteen were completed, and nineteen took place). Levine, *supra* note 19, audio recording at 4:50 & slide 4; ITC, P&A REPORT, *supra* note 5, at 40.

80. Thomas A. Broughan, *Modernizing § 337’s Domestic Industry Requirement for the Global Economy*, 19 FED. CIR. B.J. 41, 52 (2009); see also Presentation, UN Statistics Div., Manufacturing Statistics: Maintaining Comparability in a Changing World, at slide 11 (Nov. 2007), <http://unstats.un.org/unsd/industry/meetings/eclac2007/eclac07-5.PPS>; Section 337 Panel Report, *supra* note 54, ¶ 5.4 (explaining that “in patent infringement cases,

because the recent Supreme Court decision in *eBay v. MercExchange* limited the availability of injunctive relief in federal court patent infringement suits,⁸¹ especially when non-practicing entities (“NPEs”)⁸² assert the patents, parties hoping to obtain quasi-injunctive relief have turned to the ITC for an exclusion order against the infringing products.⁸³ Third, with the passage of the Omnibus Trade and Competitiveness Act of 1988⁸⁴ and the recent *Coaxial Cable Connectors* decision,⁸⁵ both Congress and the Commission have eased the domestic industry requirements for bringing an ITC complaint.⁸⁶

2. *Intrinsic Factors*

An ITC investigation offers a number of intrinsic features that make the ITC a more attractive forum than federal courts for complainants, respondents, and the public. Foremost among these features is speed.⁸⁷ The Trade Act of 1974 mandated that the agency complete its § 337 investigations “at the earliest practicable time, but not later than one year (eighteen months in more complicated cases) after the date of publication of notice of such investigation.”⁸⁸ This mandate produced ITC patent litigations

proceedings before the USITC under Section 337 are only applicable to imported products alleged to infringe a United States patent”).

81. *See* *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388, 391 (2006) (holding that the principles of equity “apply with equal force to disputes arising under the Patent Act”).

82. Sometimes these entities are referred to as non-practicing innovators (“NPIs”) or patent assertion entities (“PAEs”). *See* *Tessera Br. at 2, Coaxial Cable Connectors*, Inv. No. 337-TA-650 (ITC Jan. 13, 2010), EDIS Doc. No. 417390; FTC, *supra* note 7, at 60. In the district courts, the number of cases brought by NPEs has generally grown since 2001. *Current Research: Litigations Over Time*, PATENTFREEDOM (Jan. 1, 2011), <https://www.patentfreedom.com/research-lot.html>. As for the ITC, an indirect method for determining trends in NPE activity is looking at the number of investigations initiated which are based on the licensing activities to which § 337(a)(3)(C) refers. Data suggest that as a percentage of total ITC complaints, those based on licensing activities are growing. *See* Presentation, Robert Fram & Ashley Miller, Non-Practicing Entities at the International Trade Commission, at slide 7 (2011 Silicon Valley Innovation & Law Conference, Jan. 12, 2011) (on file with author).

83. *See* *Davis*, *supra* note 72, at slide 6.

84. Omnibus Trade and Competitiveness Act, Pub. L. No. 100-418, 102 Stat. 1107 (1988).

85. *See generally* *Coaxial Cable Connectors*, Inv. No. 337-TA-650, Commission Op. (ITC Apr. 14, 2010), EDIS Doc. No. 422832 (holding that if litigation expenditures can be linked to the licensing of a particular patent at issue, then they may constitute sufficient activity to meet the “licensing” prong of § 337(a)(3)(C)).

86. *See* discussion *infra* Part II.

87. *Kumar*, *supra* note 33, at 530; *Levine*, *supra* note 19, at slide 9.

88. Trade Act of 1974, Pub. L. No. 93-618, § 341, 88 Stat. 1978, 2053 (1975) (amending § 337(b)); *see also* GAO REPORT, *supra* note 49, at 14.

that lasted an average of 13.5 months prior to 1994 amendments to the statute which removed the strict timeframe.⁸⁹ Despite the flexibility in the modern language, the Commission remains under statutory mandate to choose a target investigation completion date within forty-five days after the investigation is initiated⁹⁰ and manages to complete investigations relatively quickly. Whereas the average district court patent litigation takes over three years to go to trial,⁹¹ the ITC in 2009 completed its full investigations in an average of 17.9 months.⁹² Moreover, anticipated improvements and expansions suggest this already condensed timeframe will shrink further.⁹³

Beyond the availability of “fast-track” patent litigation at the ITC, the Commission offers several enforcement measures and procedural features that attract litigants. The ITC offers the potent exclusion order remedy, which differs from federal court injunctions in a key regard: exclusion orders are enforced by the federal government through Customs and Border Protection rather than by the plaintiff through a federal court suit.⁹⁴

89. ITC, P&A REPORT, *supra* note 5, at 38. The statutory mandate to quickly complete investigations resulted in a World Trade Organization challenge where the trade body ruled that the strict timeline was unfair to foreign respondents. Section 337 Panel Report, *supra* note 54, ¶¶ 6.1, 6.3. As a result, Congress amended § 337 following the Uruguay Round of trade negotiations in 1994 and enacted the “earliest practicable time” language now in force. Uruguay Round Agreements Act, Pub. L. No. 103-465, § 321, 108 Stat. 4809, 4943 (amending § 337(1)(B)).

90. 19 U.S.C. § 1337(b)(1) (2006).

91. Davis, *supra* note 72, at slide 5.

92. ITC, P&A REPORT, *supra* note 5, at 40. *Coaxial Cable Connectors* was set to last fifteen months and *Hybrid Electric Vehicles* was scheduled to end thirteen months after the investigation was initiated. *Coaxial Cable Connectors*, Inv. No. 337-TA-650, ALJ Order No. 2 at 1 (ITC May 30, 2008), EDIS Doc. No. 301801; *Hybrid Electric Vehicles*, Inv. No. 337-TA-688, ALJ Order No. 3 at 1 (ITC Nov. 9, 2009), EDIS Doc. No. 414177. Perhaps the global concerns that led to the 1994 amendments were justified: the domestic complaining party Paice wanted a ten-month timeline, whereas the foreign party Toyota wanted a target date set for fifteen months after initiation. OUII Staff suggested a target completion time of thirteen months, which the ALJ eventually adopted. *Hybrid Electric Vehicles*, ALJ Order No. 3, at 1.

93. The 1994 relaxation of the statutory timeline probably does not fully explain the lengthening of ITC litigations. Other potential factors include (1) the limited number of ALJs—only three ALJs were available to hear cases in 2008; (2) the difficulty in finding replacement ALJs; (3) the enormous number of § 337 complaints; and (4) the lack of available courtroom space, forcing the ALJs to borrow room from the District Court for the District of Columbia. Each of these factors led to longer investigation times. ITC, P&A REPORT, *supra* note 5, at 41–42. However, the ITC expects this increase to end once (1) a backlog of cases is cleared out, (2) more ALJs are hired, (3) new courtrooms are completed, and (4) complainants take full advantage of a new voluntary mediation program. *Id.*

94. For a source discussing the mechanics of ITC exclusion order enforcement, see Blakeslee, *supra* note 61.

Furthermore, the ITC follows the Administrative Procedure Act,⁹⁵ which commentators suggest is less “cumbersome” than judicial rules.⁹⁶ The ITC also places fewer limits on discovery which increases pressure to settle,⁹⁷ but settlement negotiations nevertheless remain impeded because attorneys face quicker trial preparation deadlines at the ITC.⁹⁸ Litigants before the ITC also obtain summary determination less frequently than they obtain summary judgment in the district courts, leaving complainants with a better chance to obtain quasi-injunctive relief once they go through trial.⁹⁹ Finally, the ITC employs specialized ALJs who hear patent cases exclusively, arguably leading to more consistent determinations¹⁰⁰ and ultimately less chance of reversal on appeal.¹⁰¹

II. DOMESTIC INDUSTRY PROTECTION AND TENSION WITH INTELLECTUAL PROPERTY RIGHTS ENFORCEMENT

From 1922 to 1988, the basic task of the Tariff Commission and later the ITC was to protect domestic industry from unfair trade practices under the theory that such practices undercut and hurt an “efficiently and economically operated” domestic industry.¹⁰² In fact, complainants could not obtain ITC relief without proving that a domestic industry actually existed, and precedent required them to demonstrate activity such as investment in plant and equipment or employment of labor and capital to prove domestic industry.¹⁰³ However, in 1988 Congress amended § 337 to expand the types of

95. ITC, YEAR IN REVIEW, *supra* note 27, at 14.

96. 132 Cong. Rec. 7119 (1986) (statement of Rep. Robert Kastenmeier). For the Administrative Procedure Act, see 5 U.S.C. §§ 500–596 (2006).

97. Davis, *supra* note 71, at slides 4, 9.

98. *Id.* at slide 5.

99. *Id.* at slide 8.

100. *Cf.* KEVIN G. RIVETTE & DAVID KLINE, REMBRANDTS IN THE ATTIC: UNLOCKING THE HIDDEN VALUE OF PATENTS 43 (2000) (noting that the creation of the Court of Appeals for the Federal Circuit and its specialized panel of judges hearing patent cases “brought a much-needed uniformity to patent doctrine and led to greater consistency in lower district court trial rulings”); *see also* Menell, *supra* note 76, at 84 (describing the ITC ALJ as a specialized decision-maker presiding exclusively over intellectual property investigations).

101. For a characteristic-by-characteristic comparison of district court proceedings and ITC patent investigations, see Menell, *supra* note 76, at 85–87.

102. Tariff Act of 1922, ch. 356, § 316(a), 42 Stat. 858, 943; 19 U.S.C. § 1337(a) (1982) (amended 1988).

103. *See* sources cited *infra* notes 106–09 and accompanying text.

exploitative activities which would prove that domestic industry exists.¹⁰⁴ The amended statute included activities common to IP-owning entities that do not necessarily involve investment in capital and labor, namely engineering, research and development, and licensing.¹⁰⁵ In so doing, Congress cleared the path for entities exhibiting the redefined “weak” domestic industry characteristics to assert their patent rights against entities with the traditional “strong” characteristics. These changes have placed the modern, IP-enforcing ITC in difficult tension with its traditional mandate to protect domestic industry from harm because the nature of the parties has changed.

A. EASING THE COMPLAINANT’S DOMESTIC INDUSTRY BURDEN IN 1988 AND 2010

1. *Before 1988: Traditional “Strong” Domestic Industry Characteristics Required*

Prior to 1988, § 337 required that the traditional features of domestic industry be present before the ITC could initiate an investigation.¹⁰⁶ Specifically, a violation of § 337 could only be found if the unfair acts had “the effect or tendency to substantially injure or destroy an industry, efficiently and economically operated, in the United States.”¹⁰⁷ Congress stated that in order for a domestic industry to exist, a “patent must be *exploited by production* in the United States . . . [and] where unfair methods and acts have resulted in conceivable losses of sales, a tendency to substantially injure such industry has been established.”¹⁰⁸ ITC and Federal Circuit precedent confirmed that domestic industry could only be found where the complainant engaged in activity that involved “either manufacture or production or servicing of the patented item”¹⁰⁹

104. Omnibus Trade and Competitiveness Act, Pub. L. No. 100-418, § 1342, 102 Stat. 1107, 1212 (1988) (amending § 337 to include licensing as a means of “substantial investment in [an IP right’s] exploitation”).

105. 19 U.S.C. § 1337(a)(3)(C) (2006).

106. See *Gremlins*, Inv. No. 337-TA-201, Commission Op. at 5, *reprinted in* USITC Pub. 1815 (Mar. 1986), EDIS Doc. No. 217587 (“[T]he Commission has consistently defined the industry in section 337 cases to be the domestic production of the products covered by the intellectual property rights in question.”) (citing H.R. REP. NO. 93-571, at 78 (1973)).

107. *Gremlins*, Commission Op., at 3.

108. H.R. REP. NO. 93-571, at 76 (emphasis added).

109. *Gremlins*, Commission Op. at 5–6 (quoting *Schaper Mfg. Co. v. U.S. Int’l Trade Comm’n*, 717 F.2d 1371, 1371 (Fed. Cir. 1983)).

A § 337 complainant has to meet the two prongs of the domestic industry requirement: a technical prong and an economic prong.¹¹⁰ As the ALJ noted in *Coaxial Cable Connectors*, “[t]he technical prong is in place to ensure that the activities of engineering, research and development, and licensing are actually related to the asserted intellectual property right.”¹¹¹ The ITC analyzes infringement under the same standard used to prove infringement in the federal courts.¹¹² Having met this first requirement, the ITC then addresses the second part of the domestic industry test, the economic prong. Here, the Commission looks for evidence of actual domestic exploitation of the IP right.¹¹³ Traditionally, a complainant satisfied the economic prong by showing evidence of domestic labor and capital related to exploiting the IP right.¹¹⁴

The § 337 legal scheme with its strict domestic industry requirements failed to obtain a satisfactory result in the eyes of Congress in the *Gremlins* case.¹¹⁵ There, Warner Brothers filed a copyright-based § 337 complaint against unlicensed entities who imported articles depicting characters from its movie “Gremlins.”¹¹⁶ Warner Brothers had an entire division dedicated to the licensing program, and it had successfully licensed its copyrights to domestic producers of similar articles.¹¹⁷ Nevertheless, the ITC determined that Warner Brothers had not met the domestic industry requirement due to lack of domestic production of the products covered by the IP rights¹¹⁸ and the danger of allowing all importer activities to satisfy that requirement.¹¹⁹ The Commission determined that no violation of § 337 had occurred.¹²⁰

110. Certain Ammonium Octamolybdate Isomers, Inv. No. 337-TA-477, Commission Op. at 55 (ITC Jan. 5, 2004), EDIS Doc. No. 198379.

111. *Coaxial Cable Connectors*, Inv. No. 337-TA-650, ALJ Initial Determination at 110 (ITC Oct. 13, 2009), EDIS Doc. No. 413846; *see also* OUII Brief at 20, *Coaxial Cable Connectors*, Inv. No. 337-TA-650 (ITC Jan. 13, 2010), EDIS Doc. No. 417926.

112. *Coaxial Cable Connectors*, ALJ Initial Determination, at 103.

113. *Coaxial Cable Connectors*, Inv. No. 337-TA-650, Commission Op. at 38 (ITC Apr. 14, 2010), EDIS Doc. No. 422832 (noting that the economic prong “requires certain activities,” whereas the technical prong “requires that these activities relate to the intellectual property being protected”).

114. *See* text accompanying *supra* notes 106–09.

115. 132 Cong. Rec. 7119 (1986) (remarks of Rep. Robert Kastenmeier describing the *Gremlins* result as “unfortunate”).

116. *Gremlins*, Inv. No. 337-TA-201, Commission Op. at 1, 14–15, *reprinted in* USITC Pub. 1815 (Mar. 1986), EDIS Doc. No. 217587.

117. *Id.* at 9.

118. *Id.* at 5.

119. *Id.* at 10.

120. *Id.* at 22.

There was substantial disappointment with the ITC's conclusion in *Gremlins*. Representative Robert Kastenmeier, for instance, sought to “avoid unfortunate results which have occurred in some recent cases, such as *Gremlins*” through amendments to § 337(a).¹²¹ Congress heard testimony regarding why the domestic industry requirement should be reworked, specifically so that licensing activities would be sufficient to meet the domestic industry requirement. Senator Frank Lautenberg explained why § 337 should be amended to allow licensing activity to prove domestic industry:

There is a startup biotech firm in my State. Its product is its patents. It hasn't reached the stage to manufacture. It doesn't have the money. But it will reach that point, by licensing its patents to others. Should we deny that firm the right to exclude the works of pirates? Our legislation would say no. A party could get relief if it has made significant investment in R&D, engineering, or licensing.¹²²

Thus, although *Gremlins* centered on copyright licensing and infringement, Congress quickly concerned itself with the survival of firms and industries relying on strong patent rights protection and the ability to exclude infringing imports.

2. 1988 Amendments: Exploitation Redefined and Expanded

To fix the *Gremlins* problem, Congress enacted the following amendment relating to domestic industry to § 337 in the 1988 Omnibus Trade and Competitiveness Act:

[A]n industry in the United States shall be considered to exist if there is in the United States, with respect to the articles protected by the patent, copyright, trademark, mask work, or design concerned—

- (A) significant investment in plant and equipment;
- (B) significant employment of labor or capital; or
- (C) substantial investment in its *exploitation*, including engineering, research and development, or *licensing*.¹²³

The language amends § 337 in two substantial ways. First, Congress eliminated the “efficiently and economically operating industry” requirement

121. 132 Cong. Rec. 7119 (1986) (statement of Rep. Robert Kastenmeier).

122. 133 Cong. Rec. 2904 (1987) (statement of Sen. Frank R. Lautenberg); *id.* at 19945 (same).

123. 19 U.S.C. § 1337(a)(3) (2006) (emphasis added).

for domestic industry.¹²⁴ Second, it modified the economic prong of a domestic industry showing by allowing complainants to meet the requirement by proving “substantial investment in . . . exploitation” of a patent, copyright, trademark, mask work, or design by such activity as “engineering, research and development, or licensing.”¹²⁵ This amendment opened the ITC exclusion order remedy to both traditional entities that invest in plant and equipment or employ labor and capital in the United States,¹²⁶ and to entities that show little or no traditional investment but that can show expenditures arising from efforts to exploit an IP right through activities which include licensing.¹²⁷

Analysis of the amended language addressed the possible effects on domestic industry but only in the context of complainants that exhibited traditional industry characteristics. The GAO, for instance, contemplated as a worst case scenario “a potential situation where a foreign firm uses section 337 to stop a U.S. firm from importing infringing products destined for use in domestic assembly operations, thus possibly decreasing production and employment in the United States.”¹²⁸ The GAO concluded that the risk of this happening was fairly “exchange[d]”¹²⁹ for other benefits, namely that (1) information about the invention would be publicly disclosed, and (2) the product embodying a patented innovation would be made available to consumers.¹³⁰

Absent from both the Congressional discussions as well as third party analysis was consideration of the situation where the IP rights owner neither made products embodying a patented innovation nor could prove ongoing licensing activities tied to particular patents. Congress and the GAO seemed comfortable allowing foreign corporations to benefit from the exclusion

124. H.R. REP. NO. 100-40, at 154–55 (1987).

125. § 1337(a)(3)(C).

126. § 1337(a)(3)(A), (B).

127. § 1337(a)(3)(C); see discussion of *Coaxial Cable Connectors*, *infra* Section II.A.3; see also OUII Brief, *Coaxial Cable Connectors*, *supra* note 111, at 20.

128. GAO REPORT, *supra* note 49, at 35.

129. *Id.*

130. *Id.* Contrast this with the FTC’s recent conclusion that [w]hen a company commercializes technology that it invented independently and later faces a patent assertion [such as by a NPE], the resulting ex post license provides no direct benefit to consumers Moreover, the failure to transfer the technology ex ante and the corresponding duplication of inventive effort by the infringer and patentee can reflect a social loss and “inefficient commercialization.”

FTC, *supra* note 7, at 52–53.

order due to an “exchange” of benefits.¹³¹ Given, however, the power of the ITC exclusion order, it is less clear what the exchange is when a NPE holding a patent threatens to disrupt an otherwise operating industry established within the United States that depends on the importation of products or components found to infringe a NPE’s patent.¹³² Congress did not provide the ITC with any guidelines for balancing the policy considerations behind IP protection against the public interest implicated by the ITC’s purpose of protecting domestic injury from harm.

The legislative history does, however, provide some clear guidelines regarding what does or does not satisfy the revised § 337’s domestic industry requirements. This provides the Commission with reference principles from which it can discern some rudimentary threshold between IP rights enforcement and the public interest in protecting domestic industry. The first such reference principle is that Congress clearly did not intend for an ITC remedy to issue merely when an IP owner’s rights are infringed.¹³³ Rather, there must be some minimum domestic exploitation of those rights, which constitutes a domestic industry requirement that has “no analog in the Patent Act.”¹³⁴ Before the 1988 amendments, servicing products met the domestic industry requirement, even if the articles being serviced were not manufactured within the United States.¹³⁵ After the 1988 amendments, the statute provides examples of acceptable exploitation: “engineering, research and development, or licensing.”¹³⁶ The second clear reference principle is that Congress did not intend for § 337 to reach some types of domestic industry activities that may seem exploitative and which indeed go beyond mere IP ownership. Specifically, Congress stated that “marketing and sales in the United States alone are not sufficient to meet the domestic industry test.”¹³⁷ Beyond these two clear signals from Congress on the nature of acceptable exploitation, the ITC has also expressed that “there is no minimum monetary expenditure that a complainant must demonstrate to qualify as a domestic

131. *Id.*

132. The Federal Trade Commission has recently noted that for the most part, NPEs purchase patents and then extract licensing fees from operating companies that already use the technology. FTC, *supra* note 7, at 60.

133. H.R. REP. NO. 100-40, at 157 (1987).

134. OUII Brief, *Coaxial Cable Connectors*, *supra* note 111, at 26.

135. *Schaper Mfg. v. U.S. Int’l Trade Comm’n*, 717 F.2d 1371, 1372 (Fed. Cir. 1983).

136. 19 U.S.C. § 1337(a)(3)(C) (2006).

137. H.R. REP. NO. 100-40, at 157.

industry under the ‘substantial investment’ requirement of [§ 337(a)(3)(C)].”¹³⁸

Despite these reference principles, the ITC faces the difficult task of deciding the breadth of § 337 protection for activities that fall outside the traditional domestic industry characteristics which go beyond mere IP ownership. Deciding when IP rights exploitation goes sufficiently far beyond non-covered activity such as marketing and sales to trigger § 337 protection remains a cutting edge issue, and it is one which the ITC addressed in the 2010 investigation *Coaxial Cable Connectors*.¹³⁹

3. 2010: Coaxial Cable Connectors

The crucial question facing the ITC in *Coaxial Cable Connectors* was whether litigation expenditures are sufficient to meet the domestic industry requirement of a § 337 complaint.¹⁴⁰ Previously, the Commission declined to review an ALJ’s holding that “[i]t is inconsistent with the purpose of Section 337 to allow legal fees, standing alone, to establish the economic prong of the domestic industry requirement.”¹⁴¹ *Coaxial Cable Connectors* furnished the Commission with an opportunity to further interpret the relationship between litigation expenditures and domestic industry in § 337(a)(3)(C).

In *Coaxial Cable Connectors*, the ITC initiated an investigation upon a complaint filed by PPC, an entity based out of East Syracuse, New York. PPC held patents on “drop” coaxial cable connectors—components used in telecommunications, satellite, and cable television industries.¹⁴² It had engaged in litigation based on PPC’s ’539 patent with an undisclosed entity¹⁴³ to which PPC eventually licensed the patent.¹⁴⁴ However, although the actual

138. *Coaxial Cable Connectors*, Inv. No. 337-TA-650, ALJ Initial Determination at 25 (ITC Oct. 13, 2009) (quoting *Certain Stringed Musical Instruments and Components Thereof*, Inv. No. 337-TA-586, Commission Op. at 25, *reprinted in* USITC Pub. 4120 (Dec. 2009), EDIS Doc. No. 415996).

139. *Coaxial Cable Connectors*, Inv. No. 337-TA-650 (ITC 2010).

140. *Coaxial Cable Connectors*, Inv. No. 337-TA-650, Commission Op. at 43 (ITC Apr. 14, 2010), EDIS Doc. No. 422832.

141. *Certain Male Prophylactic Devices*, Inv. No. 337-TA-546, ALJ Order No. 22 at 17–18 (ITC May 15, 2006), EDIS Doc. No. 250816. For discussion of more recent affirmation of this rule, see OUII Brief, *Coaxial Cable Connectors*, *supra* note 111, at 33.

142. *Coaxial Cable Connectors*, Commission Op. at 6.

143. The identity of the counterparty with which PPC eventually entered into a licensing arrangement is confidential and was redacted from public versions of the briefs and the Commission opinion. *See, e.g., id.* at 53.

144. *Id.*

litigation was clearly based on the '539 patent, the license failed to reference the patent.¹⁴⁵

The Commission recognized that it faced an important issue of statutory interpretation to determine whether litigation expenditures could meet § 337's domestic industry requirements.¹⁴⁶ To help in this task, the agency issued a request for comments regarding various aspects of the domestic industry requirement in the context of a NPE complainant, including whether and what kind of litigation activity or legal costs could establish domestic industry.¹⁴⁷ The views from interested parties were "at sharp variance with one another."¹⁴⁸ Cisco, Google, and Verizon wrote that because § 337 "is a trade statute focused on protecting domestic productive industries, not mere legal rights," litigation fees should not count at all towards that requirement.¹⁴⁹ A submission by other technology companies argued that the Commission should adopt a standard which requires investments probative of exploitation.¹⁵⁰ Arguing for the other side, Tessera focused on the IP rights enforcement mandate set by Congress, stating that Congress had tasked the ITC with "protecting the intellectual property rights of American innovators."¹⁵¹ Each side thus invoked one of the ITC's mandates: the technology companies argued that the agency should stick to its trade roots, while Tessera pushed the Commission to be an IP enforcement forum.

The Commission concluded that "litigation activities (including patent infringement lawsuits) may satisfy [domestic industry] requirements if a complainant can prove that these activities are related to licensing and pertain to the patent at issue, and can document the associated costs."¹⁵² Generally, stated the Commission, "[t]he mere fact . . . that a license is executed does not mean that a complainant can necessarily capture all prior expenditures to establish a substantial investment in the exploitation of the patent."¹⁵³ In order to find the threshold type of activity which satisfied the requirements

145. *Id.* at 54.

146. *Id.* at 41.

147. Notice of Commission at 3–4, *Coaxial Cable Connectors*, Inv. No. 337-TA-650 (ITC Dec. 14, 2009), EDIS Doc. No. 416028.

148. *Coaxial Cable Connectors*, Commission Op. at 46.

149. Cisco, Google & Verizon Brief at 8, *Coaxial Cable Connectors*, Inv. No. 337-TA-650 (ITC Jan. 13, 2010), EDIS Doc. No. 417411.

150. Samsung et al. Reply Submission [Corrected] at 8, *Coaxial Cable Connectors*, Inv. No. 337-TA-650 (ITC Jan. 29, 2010), EDIS Doc. No. 418301.

151. Tessera Brief, *Coaxial Cable Connectors*, *supra* note 82, at 5.

152. *Coaxial Cable Connectors*, Commission Op. at 44.

153. *Id.* at 50–51.

of § 337, the Commission searched for a “common thread” unifying Congress’s underlying concerns in ensuring that universities, start-ups, or movie studios with copyrighted characters could meet the domestic industry requirement of § 337.¹⁵⁴ This common thread, concluded the Commission, consisted in activities of a type “that serve to encourage practical applications of the invention or bring the patented technology to the market,” or that otherwise “foster propagation or use of the underlying intellectual property, be it a copyright image or a patented invention.”¹⁵⁵

As to PPC, the Commission found that although it was clear that the litigation related to the ’539 patent (meeting the technical prong), the ensuing license was not clearly linked to the ’539 patent and therefore the record evidence was insufficient to hold that PPC had met the domestic industry requirements.¹⁵⁶ The Commission requested further factual development on remand to determine whether PPC could “show that each asserted litigation activity [was] related to licensing” and to the ’539 patent.¹⁵⁷ Ultimately, PPC was unable to make this showing and it failed to obtain an exclusion order.¹⁵⁸

The reaction to *Coaxial Cable Connectors* was strong and was typified by headlines such as: “ITC Rolls Out the Welcome Mat for ‘Trolls’.”¹⁵⁹ Such reactions embody a clear concern that the ITC would open its exclusion order remedy for use by entities that own but do not practice their patents or even develop, innovate, or actively license them. This would bring the domestic industry requirement too close to “mere ownership,” against the intent of the 1988 amendments.¹⁶⁰

An important question remains, however: what happened to the consideration of traditional domestic industry characteristics in § 337?

B. DISJOINED “DOMESTIC INDUSTRY” AND TENSION BETWEEN THE TRADE AND IP MANDATES

The upshot of the enactment of the 1988 amendments and *Coaxial Cable Connectors* is that the term “domestic industry” now refers to two concepts

154. *Id.* at 49.

155. *Id.*

156. *Id.* at 52–53.

157. *Id.* at 54.

158. *Coaxial Cable Connectors*, Inv. No. 337-TA-650, ALJ Remand Initial Determination at 25 (ITC May 27, 2010), EDIS Doc. No. 427462.

159. Andrew Longstreth, *Patent Litigation Weekly: ITC Rolls Out the Welcome Mat for ‘Trolls,’* CORPORATE COUNSEL (May 17, 2010), <http://www.law.com/jsp/cc/PubArticleFriendlyCC.jsp?id=1202458253242>.

160. S. REP. NO. 100-71, at 130 (1987).

rather than one: traditional or “strong” domestic industry which refers to employment of labor and capital or investment in plant and equipment; and redefined or “weak” domestic industry which includes post-1988 exploitative activities including licensing. Understanding why this is so and why it creates a modern tension at the ITC requires a closer look at how domestic industry characteristics relate to both traditional and modern litigants before the Commission.

1. IP Rights and Domestic Industry Characteristics Are Split Among ITC Parties

Essentially by definition, the parties to a § 337 investigation collectively exhibit two characteristics: ownership of IP rights and embodiment of domestic industry characteristics. The complainant is always the IP rights owner; otherwise, there can be no § 337 violation. But answering whether the complainant or respondent embodies domestic industry characteristics is more complicated, and the modern answer can easily be that both parties do. This is the main source of the tension between the ITC’s two tasks in § 337 investigations: IP enforcement and domestic industry protection.

In a traditional § 337 investigation, both the IP rights and domestic industry characteristics reside with the complainant. This is most clearly the case in ITC actions brought under § 337(a)(3)(A) or (B) where a complainant establishes domestic industry by showing “significant investment in plant and equipment” or “significant employment of labor or capital.”¹⁶¹ These lines retain the traditional “strong” domestic industry characteristics which characterized permissible § 337 complainants prior to the 1988 amendments. In this scenario, the ITC may enforce IP rights without being concerned about harm to the domestic industry because both interests reside within the same entity and both are therefore protected by an exclusion order. The Commission is able to wear both its IP rights enforcement and domestic industry protection hats comfortably and without apparent conflict.

But business models have evolved beyond these traditional notions.¹⁶² The modern complainant may have specialized to the point where even appropriation of knowledge no longer necessarily coexists with traditional

161. 19 U.S.C. § 1337(a)(3)(A), (B) (2006).

162. FTC, *supra* note 7, at 62–63 (noting that as many as seventeen “[n]ew business models, some of which are increasingly sophisticated and complex, have emerged over the past ten years to capitalize on” a secondary market for patents involving the activities of patent assertion entities).

exploitation in the form of manufacturing, marketing, and selling.¹⁶³ One such business model is the NPE that holds IP rights but does not practice them in the traditional sense through manufacturing, marketing, and selling of products. Instead, a NPE may “purchase patents, and then sell or license them as assets whose values are based on the amount of licensing fees that can be extracted from operating companies already using and marketing the technology, or they facilitate others who make the assertions.”¹⁶⁴ It may have come to own the IP through acquisition or by purchasing the IP rights to augment its IP portfolio.¹⁶⁵ Thus, a NPE complainant holding IP rights may not always exhibit the “strong” domestic industry characteristics that the ITC traditionally protected. The modern respondent, on the other hand, is more than a simple importer and reseller of goods. Rather, given globalization and technological complexity, as observed in the semiconductor or automotive fields, a single end product might be covered by hundreds of patents, each relating to a component of the final product.¹⁶⁶ Importation of products into the United States, downstream domestic manufacturing and assembly of those products, and eventual domestic marketing and sales of the final product all involve significant investment in domestic labor and capital—the traditional characteristics of domestic industry that the ITC was created to protect from unfair trade practices.¹⁶⁷

These new, modern complainants and respondents are now able to oppose each other in an ITC litigation brought under § 337(a)(3)(C). Since a complainant in this scenario has no reason to file a complaint unless a respondent is manufacturing, marketing, or selling accused articles, it naturally follows that significant amounts of labor, capital, and other investments which make those activities possible reside with the respondent. Thus, § 337(a)(3)(C) naturally sets the stage for an inevitable conflict where

163. See Tessler Brief, *Coaxial Cable Connectors*, *supra* note 82, at 23 (citing to ADAM SMITH, AN INQUIRY INTO THE NATURE AND CAUSES OF THE WEALTH OF NATIONS (1776) in support of the proposition that “a fundamental concept of economics” is that specialization and the division of labor increase efficiency).

164. FTC, *supra* note 7, at 60.

165. *Id.*

166. See, e.g., Steve Jobs, Apple Inc., *MWSF Steve Jobs Keynote Introducing Apple iPhone*, at 6:20, GOOGLE VIDEOS (Jan. 9, 2007), <http://video.google.com/videoplay?docid=7945084053124129040> (noting that Apple Inc. filed over two hundred patents on the iPhone); see also FTC, *supra* note 7, at 55 (“[M]anufacturers face an additional challenge in trying to identify and clear patent rights due to the large number of patents that cover most IT products. They maintained that an enormous number of potentially relevant, overlapping patents make identifying the applicable rights prior to product launch prohibitively costly.”).

167. See discussion and sources cited *supra* notes 39–42.

the ITC finds itself mandated to enforce IP rights in a context where such enforcement might protect a complainant's modern, redefined domestic industry activities but at the expense of the potential devastation of a respondent's entire business based upon traditional "strong" domestic industry characteristics.¹⁶⁸

2. *Inevitable Breaking Point*

Despite these fundamental changes in the law and modern economic and trade realities, Congress has not given the ITC the benefit of public debate and guidance regarding how it expects the agency to fulfill its obligations under both mandates. In particular, the ITC is basically left to its own devices to decide which body of policy considerations trumps the other and under what circumstances. Were the ITC a marginal player offering only weak remedies in the grand scheme of U.S. patent litigation, this shift and resulting tension might constitute a mere annoyance. But, as discussed above, the ITC is not only an active player in U.S. patent litigation but is an increasingly popular litigation forum due to recent federal court jurisprudence¹⁶⁹ and the growing use of the ITC by NPEs.¹⁷⁰ Moreover, the remedies available at the ITC are quite potent: complete exclusion from entry into the United States of infringing articles, either by manufacturer through a LEO, or by product through a GEO. This tension leads the ITC to an inevitable breaking point where it must struggle to reconcile its duties to enforce IP rights but without ignoring the fact that the very reason it received § 337 authority was to protect the domestic industry from unfair trade practices.¹⁷¹ Formerly intertwined, these interests have diverged in a way that makes future clash and conflict inevitable in the absence of fundamental changes and Congressional guidance.

168. Nor is the complainant necessarily of U.S. citizenship. For example, in fiscal year 2009, the ITC instituted investigations where the complainant was exclusively a foreign entity. Four investigations were in response to complaints by solely a Korean company, one involved solely a German company, and one involved solely a Japanese company. *See* ITC, YEAR IN REVIEW, *supra* note 27, at 47 tbl.II. *See also* Kumar, *supra* note 33, at 532 ("Congress crippled the ITC's ability to shield domestic companies by allowing foreign companies with few U.S. ties to litigate there . . .").

169. *E.g.*, eBay Inc. v. MercExchange, L.L.C., 547 U.S. 388 (2006).

170. *E.g.*, *Coaxial Cable Connectors*, Inv. No. 337-TA-650, Commission Op. at 54 (ITC Apr. 14, 2010), EDIS Doc. No. 422832 (holding that litigation activities and costs may be related to licensing in satisfaction of § 337's domestic industry requirement).

171. *See* discussion and sources cited *supra* notes 39–42 and accompanying text.

III. EXCLUSION ORDERS ARE TOO BLUNT FOR TODAY'S WORLD

The mere fact that NPEs that hold IP rights may have easier access to the ITC should not in itself be a cause for concern. One reason for this is that IP ownership is not intended to be a nullity: IP-based exclusion rights should be enforced, and the district courts do this regularly under the Patent Act and other IP enforcement schemes.

However, for two important reasons, the ITC does not blindly and automatically enforce IP rights. The first reason is that the ITC is primarily a creature of the trade laws.¹⁷² It was originally designed to protect domestic industry by excluding articles from entry that used methods such as IP rights infringement to compete unfairly against domestic articles. The ITC was not designed to simply apply the Patent Act without considering the existence of domestic industry. The second reason, examined in this Part, is that the ITC's main remedy is the exclusion order when it finds a valid and infringed patent with no applicable defenses. The problem is that, unlike the federal courts, the ITC does not have leeway to craft finely-tuned equitable remedies, which is further complicated by the fact that the ITC may consider public interest factors in deciding whether to issue an exclusion order. But absent policy guidance from Congress, it is difficult to predict when the Commission will act to protect IP rights or when it might invoke its public interest discretion to prevent devastating harm to domestic industry.

A. EXCLUSION ORDERS AND PERMANENT INJUNCTIONS ARE FUNCTIONALLY AND CONTEXTUALLY DISTINCT

The Tariff Commission and the courts recognized early on that under certain circumstances, exclusion of unfairly competing articles at the border was a superior remedy to an injunction in the import and trade context. The Court of Customs and Patent Appeals in 1930 explained that domestic patentees faced “practically insurmountable” difficulties in preventing the sale of infringing merchandise after it had already been distributed domestically.¹⁷³ The major reason was that such enforcement required multiple suits against individual sellers, making it too cumbersome to pursue in decentralized markets.¹⁷⁴ Eighty years later, the ITC heard similar arguments in a case involving very modern technology that touched on important political, economic, and environmental issues.

172. See discussion *supra* Part II.

173. *Frischer I*, 39 F.2d 247, 260 (C.C.P.A. 1930).

174. *Id.* at 269–70.

1. *Functional Differences: Hybrid Electric Vehicles*

*Hybrid Electric Vehicles*¹⁷⁵ came before the Commission in 2009 after the complainant, Paice, failed to win a permanent injunction against Toyota in the federal courts despite having proved patent validity and infringement.¹⁷⁶ The main reason behind its failure at the remedial stage was that the district court applied¹⁷⁷ *eBay v. MercExchange*, the 2006 Supreme Court decision that eliminated an automatic injunction grant for aggrieved patentees.¹⁷⁸ The *eBay* Court ruled that patentee plaintiffs, like non-patentee plaintiffs, must satisfy a four-factor test to get a permanent injunction. A plaintiff must demonstrate:

- (1) that it has suffered an irreparable injury;
- (2) that remedies available at law, such as monetary damages, are inadequate to compensate for that injury;
- (3) that, considering the balance of hardships between the plaintiff and defendant, a remedy in equity is warranted; and
- (4) that the public interest would not be disserved by a permanent injunction.¹⁷⁹

The district court in the earlier litigation *Paice v. Toyota* ruled that Paice had not met its burden under *eBay*, and it instead granted ongoing royalties, a ruling affirmed by the Federal Circuit.¹⁸⁰ Within five months of the conclusion of the federal court litigation,¹⁸¹ Paice filed a § 337 complaint at the ITC on September 3, 2009,¹⁸² requesting a LEO to prevent Toyota or entities acting on its behalf from importing infringing products.¹⁸³

The essential problem facing the Commission in *Hybrid Electric Vehicles* was that both parties tried to preclusively assert issues they had “won” in the federal courts. Paice won on the issues of patent validity and infringement,

175. *Hybrid Electric Vehicles*, Inv. No. 337-TA-688 (ITC 2010).

176. See *Paice LLC v. Toyota Motor Corp. (Paice I)*, No. 2:04-CV-211, 2006 WL 2385139, at *1 (E.D. Tex. Aug. 16, 2006).

177. *Id.* at *1–2.

178. *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388, 394 (2006).

179. *Id.* at 391.

180. *Paice I*, 2006 WL 23851398, at *5 (reasonable royalty), *aff'd in relevant part by Paice LLC v. Toyota Motor Corp. (Paice II)*, 504 F.3d 1293 (Fed. Cir. 2007).

181. *Paice LLP v. Toyota Motor Corp. (Paice III)*, 609 F. Supp. 2d 620 (E.D. Tex. 2009) (terminating the litigation on April 17, 2009).

182. Complaint, *Hybrid Electric Vehicles*, Inv. No. 337-TA-688 (ITC Sept. 3, 2009), EDIS Doc. No. 409884. Per ITC practice, the § 337 investigation took the name of the product, *Hybrid Electric Vehicles*, rather than the names of the parties, *Paice v. Toyota*. See 19 C.F.R. § 210.4 (2010) (directing parties to submit captions containing “title of the investigation or related proceeding”).

183. Complaint, *Hybrid Electric Vehicles*, *supra* note 182, ¶ 8.

but it failed to receive the injunctive remedy.¹⁸⁴ It probably hoped to assert those adjudicated issues at the ITC without having to relitigate them, given that normally they are sufficient to obtain an exclusion order. For its part, Toyota managed to avoid a federal court injunction based on the *eBay* factors¹⁸⁵ and, given substantial similarity of the issues and quasi-injunctive ITC relief, probably hoped to use this win to prevent Paice from obtaining an exclusion order. The question then was whether an exclusion order was similar enough to a permanent injunction for claim preclusion to operate against Paice.¹⁸⁶

Toyota asserted that Paice had already been able “to seek a certain remedy or form of relief in [the earlier *Paice* litigation]”¹⁸⁷ because the LEO and cease and desist order are no different “in scope and effect than the preliminary injunction” sought in the federal court action.¹⁸⁸ Toyota argued that if claim preclusion did not attach in the context of LEO relief, then the practical result is that the different remedy or relief exception would always apply in an ITC follow-on litigation and thereby “swallow” the general rule of claim preclusion.¹⁸⁹ Toyota argued that the unique enforcement mechanism of halting infringing goods at the border was a “purely formal distinction,” insufficient to prevent operation of claim preclusion in the abstract.¹⁹⁰ It alternatively claimed that because the record revealed its supply chain logistics to be “well documented and easily identified,” an injunction would have been just as easy to enforce as an exclusion order.¹⁹¹

The Commission itself did not have a chance to review the ruling,¹⁹² so the ALJ’s ruling rejecting Toyota’s arguments in favor of Paice’s

184. *See generally Hybrid Electric Vehicles*, Inv. No. 337-TA-688, Commission Op. (ITC Apr. 2, 2010), EDIS Doc. No. 422099 (evaluating parties’ arguments regarding claim and issue preclusion).

185. *Paice I*, 2006 WL 2385139, at *1.

186. *Hybrid Electric Vehicles*, Inv. No. 337-TA-688, ALJ Order No. 12 at 9 (ITC May 21, 2010), EDIS Doc. No. 428008.

187. *See* Restatement (Second) of Judgments § 26(1)(c) (describing one possible exception to operation of claim preclusion); *see also Hybrid Electric Vehicles*, Apr. 2, 2010 Commission Op., at 8.

188. Toyota Renewed Motion for Summary Determination at 10–11, *Hybrid Electric Vehicles*, Inv. No. 337-TA-688 (ITC Apr. 12, 2010), EDIS Doc. No. 422745.

189. Toyota Renewed Motion, *Hybrid Electric Vehicles*, *supra* note 188, at 12.

190. *Id.* at 13.

191. *Id.* at 14.

192. When Toyota moved for interlocutory review of this order, the ALJ denied that motion (and thereby prevented a Commission ruling on this issue), citing Toyota’s failure to show that interlocutory review would “materially advance the ultimate completion of the investigation,” suggesting the continuing weight of § 337’s mandate to complete

counterarguments stands as precedent. Paice argued that the preclusion should not operate against it because the ITC “uniquely prevents importation by non-parties.”¹⁹³ While an injunction covers only domestic activity by Toyota, an exclusion order would prevent importation of “all infringing products that are ‘manufactured abroad by or on behalf of, or are imported by or on behalf of,’ Toyota.”¹⁹⁴ As to enforcement, Paice submitted that “[w]hile an LEO would indiscriminately thwart any attempts by Toyota to import using a third party, a district court injunction would require Paice to provide ‘notice’ in the form of service as a prerequisite to enforcement against those same third parties,”¹⁹⁵ which would also require “active monitoring steps.”¹⁹⁶ These differences made enforcement of an injunction considerably more expensive.¹⁹⁷ Finally, Paice argued and the ALJ agreed that an injunction is a “reactive” remedy enforced if the infringing activity continues, whereas a LEO provides a “proactive” remedy by halting importation altogether.¹⁹⁸ Having adopted most of Paice’s arguments, the ALJ added that “importation is treated differently than domestic activity”¹⁹⁹ and that Commission precedent recognized that the analysis preceding issuance of an injunction differs from that preceding an exclusion order.²⁰⁰ Though the ALJ did not reach the argument, OUII Staff argued in their opposition that, contrary to Toyota’s assertion, claim preclusion may sometimes apply at an ITC proceeding even if the remedies are considered legally different.²⁰¹ For instance, where a district court has ruled a patent not

investigations at the “earliest practicable time.” *Hybrid Electric Vehicles*, Inv. No. 337-TA-688, ALJ Order No. 14 at 4 (ITC June 16, 2010), EDIS Doc. No. 427567.

193. Paice Opposition at 19, *Hybrid Electric Vehicles*, Inv. No. 337-TA-688 (ITC Apr. 19, 2010), EDIS Doc. No. 423418.

194. *Id.* at 20.

195. *Id.*

196. *Id.*

197. *Id.*

198. *Id.* at 20–21. *But see* Blakeslee, *supra* note 61 (discussing why the exclusion order remedy is not as “automatic” or even as effective as one might otherwise think due to systemic limitations in a complex import system).

199. *Hybrid Electric Vehicles*, Inv. No. 337-TA-688, ALJ Order No. 12 at 10–11 (ITC May 21, 2010), EDIS Doc. No. 428008.

200. *Baseband Processor Chips*, Inv. No. 337-TA-543, Commission Op. at 102 n.230 (ITC June 12, 2007), EDIS Doc. No. 276412.

201. OUII Response to Renewed Motion at 9, *Hybrid Electric Vehicles*, Inv. No. 337-TA-688 (ITC Apr. 19, 2010), EDIS Doc. No. 423393. The Staff in turn refer to a 1983 Federal Circuit opinion on this point, *Young Eng’rs Inc. v. U.S. Int’l Trade Comm’n*, 721 F.2d 1305, 1307–08 (Fed. Cir. 1983).

infringed, an ITC respondent can probably assert claim preclusion against that plaintiff despite the difference in remedies.²⁰²

Both Paice and OUII Staff seemed to paint the exclusion order as a remedy superior to a permanent injunction essentially because it externalizes the complainant's costs of enforcement, shifting those costs and efforts to the U.S. government.²⁰³ But given that the ITC's patent litigation jurisdiction is immune from *eBay* analysis,²⁰⁴ once validity and infringement are proved, an exclusion order issues automatically unless a consideration of the public interest militates otherwise.²⁰⁵ Therefore, the position of both Paice and the Staff somewhat illogically implies that a superior quasi-injunctive remedy should be made more easily available to more complainants with a weaker claim to domestic industry harm.

Over the course of the summer of 2010, prominent elected public officials including U.S. Senators and Representatives and State Governors chose to submit Comments to the Commissioners under Rule 210.50,²⁰⁶ requesting that they not issue an exclusion order since Paice had already failed to obtain injunctive relief in the federal courts.²⁰⁷ Thus they stood in opposition to the Commission's legal view that the remedies were sufficiently different to allow Paice's claim to continue.

2. *Contextual Difference: Equitable Spectrum Versus All-or-Nothing ITC Remedy*

A second key distinction between the exclusion order and the permanent injunction is that the former exists in a binary system, whereas the latter stands at the endpoint of a remedial spectrum. Thus even though a federal court may deny a request for permanent injunctive relief following *eBay*, the plaintiff probably will still receive a less powerful remedy, such as the compulsory ongoing royalty that issued in *Paice v. Toyota*.²⁰⁸ But courts tend to

202. April 19, 2010 OUII Response, *Hybrid Electric Vehicles*, *supra* note 201, at 9.

203. See April 19, 2010 Paice Opposition, *Hybrid Electric Vehicles*, *supra* note 193, at 19–22; April 19, 2010 OUII Response, *Hybrid Electric Vehicles*, *supra* note 201, at 10–11.

204. *Spansion, Inc. v. Int'l Trade Comm'n*, 629 F.3d 1331, 1359 (Fed. Cir. 2010).

205. 19 U.S.C. § 1337(d)(2) (2006).

206. 19 C.F.R. § 210.50 (2010).

207. See, e.g., Letter from Rep. W. Todd Akin to Hon. Deanna Tanner Okun, *Hybrid Electric Vehicles*, Inv. No. 337-TA-688 (ITC June 28, 2010), EDIS Doc. No. 428688; Letter from Sen. Mitch McConnell to Hon. Deanna Tanner Okun, *Hybrid Electric Vehicles*, Inv. No. 337-TA-688 (ITC June 30, 2010), EDIS Doc. No. 428832; Letter from Rep. Lamar Smith to Hon. Deanna Tanner Okun, *Hybrid Electric Vehicles*, Inv. No. 337-TA-688 (ITC July 2, 2010), EDIS Doc. No. 428870.

208. *Paice III*, 609 F. Supp. 2d 620, 622 (E.D. Tex. 2009).

calculate such damages based on hypothetical arms-length transactions between the parties which are supposed to reflect the true economic value of the license for a litigated patent.²⁰⁹ What is noteworthy about the royalty calculation in *Paice v. Toyota* is that both courts neglected to consider in their calculations the theoretical economic value to Paice of the continuing availability of an ITC exclusion order against the accused products.²¹⁰ Instead, the district court focused on other factors which it saw appropriate to a final calculation of the value of a license between the two parties: fully litigated patents whose validity and actual infringement had been proved,²¹¹ voluntary and willful continuing infringement,²¹² higher oil and gas prices and resulting market share increase,²¹³ and increased demand for Toyota's vehicles.²¹⁴

By contrast, the ITC's available remedy scheme lacks the spectrum of equitable remedies and relief available in a federal district court.²¹⁵ The exclusion order is a blunt remedy tool compared to the spectrum of equitable remedies available in the federal courts. At the ITC, either the complainant wins the desired exclusion order, or the respondent likely walks away with little more than a sizeable invoice for legal fees. The reasonable question to ask is whether it is logical to maintain such a black-and-white system in a world colored by globalization, complex IP asset portfolios and related business strategies, and manufactured articles comprising multiple components gathered from dozens of countries and covered by numerous patents.²¹⁶ Should multinationals producing sophisticated technology be held hostage by a single non-practicing IP rights holder? The federal courts under *eBay* would likely say certainly not, but the ITC is practically bound by statute to say yes.

209. *Id.* at 624 (citing and quoting *Amado v. Microsoft Corp.*, 517 F.3d 1353, 1362 (2008) (“Once a judgment of validity and infringement has been entered . . . the calculus is markedly different because different economic factors are involved.”)).

210. *See Paice I*, No. 2:04-CV-211, 2006 WL 2385139 (E.D. Tex. Aug. 16, 2006); *Paice II*, 504 F.3d 1293 (Fed. Cir. 2007).

211. *Id.* at 626.

212. *Id.* at 628.

213. *Id.*

214. *Id.* at 629.

215. For example, the federal district court in the *Paice* litigation eventually awarded Paice an ongoing royalty of \$98 per vehicle. *Id.* at 630.

216. *See* FTC, *supra* note 7, at 55.

B. THE ITC'S PUBLIC INTEREST DISCRETION DOES NOT RESOLVE THE TENSION AND IDENTITY CRISIS

Perhaps the situation described above is not so bleak. Section 337 directs the Commission to forego an exclusion order where, “after considering the effect of such exclusion upon the public health and welfare, competitive conditions in the United States economy, the production of like or directly competitive articles in the United States, and United States consumers, it finds that such articles should not be excluded from entry.”²¹⁷ This language gives the ITC discretion to consider the public interest and forego an exclusion order even where the Commission finds that a valid patent has been infringed. In 1974, Congress felt that “the public interest must be paramount in the administration of [§ 337],”²¹⁸ thus putting public interest—a broad category of considerations that may include domestic industry characteristics—in the position of final obstacle in the march towards an ITC exclusion order. Public interest considerations at first glance appear to be a desirable statutory “safety valve” that functions like a domestic industry defense to patent infringement at the ITC. However, closer inspection reveals that reliance on such a defense to allay the detrimental effects of an exclusion order probably exacerbates rather than alleviates the frustration of IP and trade policy.

1. *Public Interest Compared: Federal Courts and the ITC*

Since the two related cases were substantially litigated in both the federal courts and at the ITC, *Paice* and *Hybrid Electric Vehicles* offer an opportunity to study how the public interest influences adjudication in the two forums. *eBay* requires federal courts to consider the “balance of hardships” and the public interest before issuing a permanent injunction.²¹⁹ On the balance of hardships, the district court cited an interruption to Toyota’s domestic business as well as the related businesses of dealers and suppliers.²²⁰ The court was concerned about stifling investment in research and product line development for bringing automobiles to market.²²¹ As to the public interest *eBay* factor, the district court discussed only American dependence on foreign

217. 19 U.S.C. § 1337(d)(1) (2006) (exclusion orders); *see also* § 1337(e)(1) (exclusion of articles except under bond), (f)(1) (cease and desist orders), and (g)(1)(E) (orders issued in case of respondent default).

218. S. REP. NO. 93-1298, at 193 (1974).

219. *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388, 391 (2006).

220. *Paice I*, No. 2:04-CV-211, 2006 WL 2385139, at *6 (E.D. Tex. Aug. 16, 2006).

221. *Id.*

oil and decided that this factor weighed in neither party's favor.²²² The district court's balance of hardships analysis, however, only indirectly touches on the traditional markers of domestic industry, and considerations of plant and equipment investment or labor and capital employment did not enter at all into its exceedingly short discussion of the public interest.²²³

Contrast this with the loud and influential voices directing the ITC's attention to important public interest considerations in *Hybrid Electric Vehicles* and exhorting the Commission to deny Paice an exclusion order. The Comments filed in response to the Commission's investigation initiation notice²²⁴ mention a host of problems with the quasi-injunctive remedy. To be sure, there is some overlap with the district court in concerns mentioned—for instance, that of an injunctive remedy stifling investment in research and product line development for bringing automobiles to market²²⁵—but many other concerns are uniquely discussed in the Comments to the Commission. Several of them invoked the ITC's purpose of protecting domestic industry from unfair competition,²²⁶ saying specifically that the agency was “not created to protect an entity like Paice that neither manufactures products nor licenses technologies to car manufacturers.”²²⁷ The Comments also summarized the various concerns that their elected official authors had on behalf of their constituents and the U.S. domestic industry in hybrid cars. For instance, some were concerned about stifling innovation and technological expansion.²²⁸ Others mentioned putting Toyota's 200,000 U.S. workers and the welfare of their families at risk²²⁹ and pointed to specific manufacturing facilities such as a 9,400-employee plant in Georgetown, Kentucky producing Camry hybrids.²³⁰ Not only would dealership employees be affected, but municipal sales tax revenue would also greatly decrease, according to the

222. *Id.*

223. *See id.*

224. *See* 19 C.F.R. § 210.50 (2010).

225. *E.g.*, Letter from Gov. Haley Barbour to Hon. Deanna Tanner Okun, *Hybrid Electric Vehicles*, Inv. No. 337-TA-688 (ITC July 14, 2010), EDIS Doc. No. 429572.

226. *See, e.g.*, Akin Letter, *supra* note 207; Letter from Sen. Christopher S. Bond to Hon. Deanna Tanner Okun, *Hybrid Electric Vehicles*, Inv. No. 337-TA-688 (ITC July 7, 2010), EDIS Doc. No. 429011; Letter from Rep. Mike Ross to Hon. Deanna Tanner Okun, *Hybrid Electric Vehicles*, Inv. No. 337-TA-688 (ITC July 15, 2010), EDIS Doc. No. 429890.

227. Akin Letter, *supra* note 207.

228. *E.g., id.*

229. *Id.*; *see also, e.g.*, Smith Letter, *supra* note 207 (“[t]housands of American workers and their families would pay an immediate price” resulting in a “deleterious effect on the business of Toyota sales teams across the United States”).

230. Akin Letter, *supra* note 207; McConnell Letter, *supra* note 207.

Comments.²³¹ They further addressed reduced consumer choice and higher prices for the hybrid vehicles, with many consumers being priced out of the hybrid market.²³² Consequently, fewer fuel-efficient cars would be used, causing harm to the environment and possibly stifling the development of green technology generally.²³³ Several Comments remarked that all of this would come to pass during a severe economic downturn.²³⁴ For these reasons, the elected officials urged the Commission to deny an exclusion order against Toyota.

This comparison of public interest treatment in the federal courts and the ITC leads to several observations. First, the difference in the depth of public interest consideration between the two forums can sometimes be striking, as seen above. A possible explanation is that the multiple *eBay* factors and the range of equitable remedies available in the federal courts create less urgency for public intervention than at the ITC, where respondents face an exclusion order. Second, while the authors of the Comments clearly articulated their desired result, less clear was how the legislators and other elected officials would have advised the ITC to balance the value of protecting IP against protecting domestic industry.

2. *A Domestic Industry Defense to Patent Infringement*

Had *Hybrid Electric Vehicles* not settled, the ITC could have satisfied the Comments authors by invoking its public interest discretion and declining to issue an order excluding the infringing engine components. Modern ITC actions are more amenable to this possibility because of the changing nature of ITC litigants described in Section II.B. Whereas before 1988 the complainant always had “strong” domestic industry characteristics to protect, today’s ITC action just as likely features a complainant that embodies only the redefined “weak” characteristics. However, the traditional characteristics of labor and capital employment and plant and equipment investment did not simply disappear. Rather, in § 337(a)(3)(C) investigations, they reappear as a final trump card that a modern respondent may play after exhausting all other challenges and defenses in its strategic arsenal.

231. *E.g.*, Barbour Letter, *supra* note 225.

232. *E.g.*, *id.*

233. *E.g.*, *id.*

234. *E.g.*, McConnell Letter, *supra* note 207.

The public interest discretion enables this final trump card. Notably invoked in the 1984 *Burn Beds* case,²³⁵ the discretion language opens the possibility for modern respondents to claim that Congress intended for “public health and welfare” to include consideration of the seriously harmful effects of issuing an exclusion order where an established domestic industry faces serious harm or elimination. Therefore, the modern § 337 respondent can argue domestic industry as a defense against the exclusion order remedy, even where its activities otherwise infringe valid U.S. patents. In this way, the statute itself provides one way for the ITC to steer clear of harming domestic industry while appearing to fulfill its mandate to enforce IP rights.

Furthermore, members of Congress and other public leaders have given their imprimatur to the domestic industry defense, at least impliedly, through their correspondence with the Commission at a critical stage in the *Hybrid Electric Vehicles* investigation.²³⁶ However, mere agreement is unsatisfactory where the complex policy issues of IP and trade collide in a way that affects hundreds of thousands of jobs and many dollars of GDP in high-profile cutting edge industries of national importance.

3. *The Problems of Relying on the Domestic Industry Defense*

In theory, the mandate to consider the public interest may indeed soften the general injurious effect on respondents of granting exclusion orders. But in reality, allowing respondents to prevail frequently on a domestic industry defense in modern times would create three big problems: (1) it nevertheless still harms a domestic industry; (2) it opens the possibility of letting willful infringers off the hook; and (3) it may incentivize secret, extrajudicial deal making by leveraging the power of scarce judicial resources.

First, any determination in a suit based on § 337(a)(3)(C) necessarily hurts some domestic industry interests because both complainant and respondent will exhibit protectable characteristics. In the event of a violation, the Commission will, by default, issue an exclusion order unless it is convinced by a strong showing that the public interest would be harmed. There is no aggregation of balanced factors as in the federal courts; rather, “public health and welfare” presents a real hurdle to respondents and industries that wish to avoid harm from an exclusion order. Indeed, the ITC has invoked its public interest discretion in only three investigations, all of them prior to the 1988

235. Certain Fluidized Supporting Apparatus and Components Thereof (*Burn Beds*), Inv. Nos. 337-TA-182/188, Commission Op., reprinted in USITC Pub. 1667 (Oct. 1984), EDIS Doc. No. 235424 (focusing on the “public health” aspect of the public interest).

236. See sources cited *supra* notes 225–33 and accompanying text.

amendments.²³⁷ By contrast, courts considering an injunction after *eBay* see whether the scales tip in favor of either party on each factor, so a mere 51% showing on three factors could be enough to stop issuance of an injunction. Moreover, the federal courts are probably less timid about denying injunctions because they have other remedies available.

Second, the failure to issue an exclusion order means that the accused and affirmed infringer gets off scot free. Intellectual property rights then lose their power before the ITC in such instances, and the only other option for the rights holder is to bring duplicative litigation in the federal district courts to enforce rights that the ITC declined to enforce based on the public interest. Therefore, not only does this inevitably draw out the matter and continue to destabilize investment in affected industries, but the current legal environment cheapens the value of innovation and patent rights by subjecting them to a risky and unpredictable public interest gamble before the ITC.

Third, the possibility of obtaining an exclusion order heightens the incentive for parties to reach a private settlement but only after using public resources to litigate the issue before the federal courts as well as the Commission. *Hybrid Electric Vehicles* is an example of such a settlement.²³⁸ The federal courts, an expensive litigation forum, had already given the parties an opportunity to settle in *Paice I*.²³⁹ After the parties failed to settle,²⁴⁰ the court expended more resources including an appellate proceeding²⁴¹ to calculate appropriate back and ongoing royalties. But as the ITC hearing date approached following almost six years of litigation,²⁴² the parties reached a private settlement, untouched by public scrutiny.²⁴³ The entire *Paice v. Toyota* saga raises two sets of important questions. The first set deals with the

237. *Certain Foam Masking Tape*, Inv. No. 337-TA-528, Commission Op. at 11 n.7, reprinted in USITC Pub. 3968 (Dec. 2007). The three investigations were *Certain Automatic Crankpin Grinders*, Inv. No. 337-TA-60, USITC Pub. 1022 (1979); *Certain Inclined Field Acceleration Tubes*, Inv. No. 337-TA-67, USITC Pub. 1119 (1980); and *Burn Beds*, Inv. Nos. 337-TA-182/188, USITC Pub. 1667 (Oct. 1984).

238. See Eric Lane, *From Preclusion to Conclusion: Paice and Toyota Settle Hybrid Vehicle Patent Suits*, GREEN PATENT BLOG (Aug. 18, 2010), <http://greenpatentblog.com/2010/08/18/from-preclusion-to-conclusion-paice-and-toyota-settle-hybrid-vehicle-patent-suits/>.

239. *Paice III*, 609 F. Supp. 2d 620, 623 (E.D. Tex. 2009).

240. *Id.*

241. In this case, *Paice II*, 504 F.3d 1293 (Fed. Cir. 2007).

242. See Joann Muller, *Toyota Settles Hybrid Patent Case*, FORBES.COM (Jul. 19, 2010), <http://www.forbes.com/2010/07/19/toyota-prius-paice-severinsky-business-autos-hybrid.html>.

243. See *id.*; Lane, *supra* note 238.

obligations to the public of parties who leverage expensive judicial resources to potentially extract a lucrative, private settlement. Is this an appropriate system to maintain? How is fairness reviewed, not only for corporate litigants but for thousands of employees and billions of dollars of investment and market share? The second set relates to unsettled questions of law. The *Hybrid Electric Vehicles* settlement robbed society of the opportunity to learn how the ITC would balance considerations of IP rights and domestic industry protection, which would have increased certainty in future proceedings. At what point would it have applied its expertise in determining injury to domestic industry²⁴⁴ and invoke its public interest discretion?

Against the backdrop of little or no guidance from Congress, the unpredictability of the outcome of a public interest analysis continues to mean that no party can accurately assess the risks involved in building industries incorporating potentially infringing technologies or investing in the development of an IP asset portfolio, which could deter innovation.²⁴⁵ Clearly, maintaining the status quo and placing trust in the ITC's public interest discretion leaves ITC counterparties and the stakeholders that depend on them subject to uncertain and potentially arbitrary outcomes—risks that harm industries and devalue intellectual property rights.

IV. ENDING THE HARMFUL ZERO-SUM GAME BY CLARIFYING THE ITC'S OBJECTIVES AND LINKING ITS DETERMINATIONS TO NON-INJUNCTIVE REMEDIES

Patents form part of the American IP scheme to “promote the Progress of Science and the useful Arts”²⁴⁶ by striking a careful balance between an inventor and the public to incentivize innovation through a limited monopoly grant.²⁴⁷ The various tariff and trade commissions were originally

244. GAO REPORT, *supra* note 49, at 33.

245. *Cf.* FTC, *supra* note 7, at 53 (noting that a company facing patent assertion by a patent asserting entity for independently developed technology may increase the manufacturing company's costs and risk and thereby deter innovation).

246. U.S. CONST. art. I, § 8, cl. 8.

247. Menell et al., *supra* note 20, at I-2 to I-4; *see* ROBERT P. MERGES, PETER S. MENELL & MARK A. LEMLEY, INTELLECTUAL PROPERTY IN THE NEW TECHNOLOGICAL AGE 14–15 (5th ed. 2010); *id.* at 775 (offering the example of utility patent protection as balancing the “larger policies of federal intellectual property law” against “the short-run hampering of free competition with the longer-term benefits of innovation”); *see also* *White v. Samsung Elecs. Am., Inc.*, 989 F.2d 1512 (9th Cir. 1993) (Kozinski, J., dissenting) (stating that “intellectual property law is full of careful balances between what's set aside for the owner and what's left in the public domain for the rest of us”).

meant to protect domestic industry from harm.²⁴⁸ The ITC lies somewhere between the two bodies of law, but current law and available legislative resources render the ITC unable to satisfy critics on either side of the debate. Some will bemoan the Commission's independent style of IP rights enforcement,²⁴⁹ while others will be unsatisfied when an ITC-issued exclusion order cuts domestic employment of labor and capital and reduces investment in plant and equipment.²⁵⁰ Still others will criticize a parallel patent litigation forum as a waste of judicial resources.²⁵¹

Ultimately, any proposal to change the ITC as it grows in prominence as an alternative forum for patent litigation should take into account several basic considerations. First, any reform must recognize the benefits of the Commission as a fast and efficient forum that offers a potent exclusion order following investigations conducted by judges who exclusively adjudicate patent disputes. Second, reformers should be mindful that the policy considerations embodied in any of the various IP disciplines are complex and have important effects for innovation and creativity. Third, given its five strategic operations, reformers must recognize that the ITC remains primarily a trade-oriented government agency with an expertise in analyzing foreign and domestic industries. Fourth, the policy choices available where IP and trade law intersect and collide will likely reflect delicate and complicated compromises.

Recognizing this, Congress should consider connecting the ITC to the federal court system in ways that continue to promote efficiency and consistent judgments. Although granting the ITC additional remedies may be a tempting solution to the problem of all-or-nothing exclusion orders, the reality is that the requirements of damages proceedings would bog down the ITC at a time when it faces more and higher stakes patent litigations. Instead, Congress might contemplate a sort of working relationship between the ITC and the district courts, allowing each entity to take advantage of its respective expertise. For example, an ITC investigation might quickly resolve a dispute and either grant or deny an exclusion order, thereby concentrating its efforts on the emergency border remedy. In the event of a denial, but where validity and infringement are shown, the ITC could refer damages hearings to a

248. See *supra* Section I.B.

249. See, e.g., Chien, *supra* note 51, at 68–69; Kumar, *supra* note 33, at 533.

250. See sources cited *supra* notes 229–30 and accompanying text (citing Comments sent to the Commission in the *Hybrid Electric Vehicles* investigation that concerned domestic employee welfare).

251. See Chien, *supra* note 51, at 72.

district court. The district court might give a degree of deference to the ITC determinations on the patents, and it would receive detailed industry information from the ITC record of the case.²⁵² This solution would retain the ITC's speed and expertise, and the ITC would not risk becoming simply another district court in the federal system. Rather, with a clarified relationship to the Patent Act and the district courts, including access to a broader range of remedies through referral to the district courts, ITC patent litigation would become more predictable, efficient, and attractive to parties looking for speedy resolution of quickly-changing and high stakes issues.

Besides considering structural reform, the legislature should openly debate the pros and cons of a trade body being a major patent litigation forum, and how that trade body should balance its historical expertise in protecting domestic industry against the relatively newer mandate of enforcing IP rights. To say that the Commission should take into account "the public health and welfare, competitive conditions in the United States economy, the production of like or directly competitive articles in the United States, and United States consumers" is not enough to guide it through murky IP policy issues and domestic industry questions. Nor would it be enough to bind the ITC to a "lite" version of the *eBay* factors: Congress has already said it does not want the ITC to consider traditional irreparable harm,²⁵³ and the public health and welfare analysis at the ITC may already be more sophisticated than can be expected in the district courts, which do not specialize in trade or even IP cases for the most part. However, Congress must provide the ITC with guidance in applying these considerations against the strong policies behind enforcing IP rights. Such guidance alone would be helpful in the binary remedy and parallel litigation system in place today. But to improve the situation further, it would be most helpful for Congress to engage in this debate while simultaneously considering the earlier recommendation of follow-on district court proceedings after an ITC determination denying an exclusion order on public health and welfare grounds.

252. Such an arrangement might be similar to what already exists in the context of stayed district court proceedings under 28 U.S.C. § 1659(b) (2006), which allows parties to the federal action to use the ITC investigation record in that action. *See also* Menell et al., *supra* note 20, § 11.5.1.

253. H.R. REP. NO. 100-40, at 154 (1987).

V. CONCLUSION

The ITC has a number of advantages over traditional patent litigation forums, including fast-paced litigation and predictable investigation schedules, judges who specialize in patent law, and availability of a potent and superior remedy against the importation and sale of infringing articles. But even though the ITC may today be a very active patent litigation forum, it remains cognizant of its roots in protecting domestic industry from unfair competition. It has evolved mechanisms through which it continues to protect the traditional interests of domestic industry even when such protection is adverse to the enforcement of intellectual property rights, such as a domestic industry defense based on the public interest discretion. Congress and other public leaders appear to support such developments, but without structural changes and Congressional guidance the ITC is unable to fully satisfy the needs of its dual trade and IP mandates. This has created a growing tension in a world characterized by globalization, complexity, and heightened access for complainants that lack traditional domestic industry characteristics.

The solution lies not in the polar recommendations of binding the ITC fully to the Patent Act, or removing § 337 authority over IP-based complaints altogether. Rather, the best solution would preserve both the ITC's unique position of protecting domestic industry from harm and its advantages to litigants and society as a patent litigation forum. Congress might, for example, give the federal courts follow-on jurisdiction in cases where the ITC declines to issue an exclusion order but where another type of equitable remedy is required to ensure fairness to all parties. Even in the absence of such an arrangement, Congress must engage in public debate about the appropriate balance of considerations when IP policy and domestic industry protection compete for attention in a world characterized by technology and globalization.

